PATENT AND TRADEMARK LAW AMENDMENTS OF 1980

HEARINGS

BEFORE A

SUBCOMMITTEE OF THE COMMITTEE ON GOVERNMENT OPERATIONS HOUSE OF REPRESENTATIVES

NINETY-SIXTH CONGRESS

SECOND SESSION

ON

H.R. 6933

TO AMEND THE PATENT AND TRADEMARK LAWS

SEPTEMBER 16 AND 17, 1980

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U.S. PATENT
AND
TRADEMARK OFFICE

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CONTENTS

Page

Hearings held on—
September 16 1
September 17 85
Text of H.R. 6933 2
Statement of—
Boorstin, Daniel J., Librarian of Congress; accompanied by David Ladd, Register of Copyrights; and Adoreen McCormick, Legislative Liaison Officer 106
Brooks, Hon. Jack, a Representative in Congress from the State of Texas, and chairman, Legislation and National Security Subcommittee: Opening statement 1
Ewing, Ky P., Jr., Deputy Assistant Attorney General, Antitrust Division, U.S. Department of Justice 85
Klutznick, Philip M., Secretary of Commerce; accompanied by Jordan J. Baruch, Assistant Secretary for Science and Technology, and Andrew Manatos, Assistant Secretary of Commerce 51
Rickover, Adm. Hyman C., Deputy Commander for Nuclear Power, Naval Sea Systems Command; accompanied by Thomas L. Foster, Associate for Fiscal Matters, Nuclear Power Directorate 74
Williams, Karen Hastie, Administrator, Office of Federal Procurement Policy, Office of Management and Budget; accompanied by Patricia A. Szervo, Associate Administrator for Procurement Law Legislation; and Herman E. Shipley, Deputy Associate Administrator, Major System Acquisitions and Procurement Strategies 109
Letters, statements, etc., submitted for the record by—
Brooks, Hon. Jack, a Representative in Congress from the State of Texas, and chairman, Legislation and National Security Subcommittee:
September 15, 1980, letter from Ralph Nader concerning H.R. 6933 134–135
Correspondence from committee chairmen concerning H.R. 6933 136–139
Dingell, Hon. John D., a Representative in Congress from the State of Michigan: Prepared statement 126–133
Ewing, Ky P., Jr., Deputy Assistant Attorney General, Antitrust Division, U.S. Department of Justice: Prepared statement 95–105
Horton, Hon. Frank, a Representative in Congress from the State of New York: Prepared statement 50
Klutznick, Philip M., Secretary of Commerce:
Prepared statement 63–73
Submissions to additional questions of Chairman Brooks 57–58
Williams, Karen Hastie, Administrator, Office of Federal Procurement Policy, Office of Management and Budget: Prepared statement 113–124

APPENDIX

Material and correspondence submitted for the hearing record 141

PATENT AND TRADEMARK LAW AMENDMENTS OF 1980

TUESDAY, SEPTEMBER 16, 1980

HOUSE OF REPRESENTATIVES,
LEGISLATION AND NATIONAL SECURITY SUBCOMMITTEE
OF THE COMMITTEE ON GOVERNMENT OPERATIONS,
Washington, D.C.

The subcommittee met, pursuant to notice, at 9:40 a.m., in room 2154, Rayburn House Office Building, Hon. Jack Brooks (chairman of the subcommittee) presiding.

Present: Representatives Jack Brooks, Elliott H. Levitas, Frank Horton, and Arlan Stangeland.

Also present: Subcommittee staff: Eugene F. Peters, staff director; Linda Shelton, office manager; Mary Alice Oliver, secretary; full committee staff: William M. Jones, general counsel; Elmer W. Henderson, senior counsel; James E. Lewin, Robert H. Brink, professional staff members; John M. Duncan, minority staff director; J. P. Carlson, minority counsel; Stephen M. Daniels, minority professional staff, Committee on Government Operations; and Leslie L. Megyeri, from the General Accounting Office.

OPENING STATEMENT OF CHAIRMAN BROOKS

Mr. BROOKS. The subcommittee will come to order.

This morning we are considering H.R. 6933, a bill to amend the patent and trademark laws, sequentially referred to the Committee on Government Operations after having been reported by the Judiciary Committee. Without objection, it will be included in the record at this point.

[The bill, H.R. 6933, follows:]

I

96TH CONGRESS
2D SESSION

H. R. 6933

[Report No. 96–1307, Part I]

Entitled: "To amend the patent and trademark laws".

IN THE HOUSE OF REPRESENTATIVES

MARCH 26, 1980

Mr. KASTENMEIER (for himself, Mr. RODINO, and Mr. RAILSBACK) introduced the following bill; which was referred to the Committee on the Judiciary

SEPTEMBER 9, 1980

Reported with amendments, referred to the Committee on Government Operations for a period ending not later than September 23, 1980, for consideration of such provisions of the bill and amendment as fall within the jurisdiction of that committee under clause 1(i)(2), rule X, and ordered to be printed

[Strike out all after the enacting clause and insert the part printed in italic]

[For text of introduced bill, see copy of bill as introduced on March 26, 1980]

A BILL

Entitled: "To amend the patent and trademark laws".

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That title 35 of the United States Code, entitled "Patents", is amended by adding after chapter 29 the following new chapter 30:

"CHAPTER 30—PRIOR ART CITATIONS TO OFFICE AND REEXAMINATION OF PATENTS

"Sec. 301. Citation of prior art.
"Sec. 302. Request for reexamination.
"Sec. 303. Determination of issue by Commissioner.
"Sec. 304. Reexamination order by Commissioner.
"Sec. 305. Conduct of reexamination proceedings.
"Sec. 306. Appeal.
"Sec. 307. Certificate of patentability, unpatentability, and claim cancellation.

"§ 301. Citation of prior art

"Any person at any time may cite to the Office in writing prior art consisting of patents or printed publications which that person believes to have a bearing on the patentability of any claim of a particular patent. If the person explains in writing the pertinency and manner of applying such prior art to at least one claim of the patent, the citation of such prior art and the explanation thereof will become a part of the official file of the patent. At the written request of the person citing the prior art, his or her identity will be excluded from the patent file and kept confidential.

"§ 302. Request for reexamination

"Any person at any time may file a request for reexamination by the Office of any claim of a patent on the basis of any prior art cited under the provisions of section 301 of this title. The request must be in writing and must be accompanied by payment of a reexamination fee established by the Commissioner of Patents pursuant to the provisions of section 41 of this title. The request must set forth the pertinency and manner of applying cited prior art to every claim for

which reexamination is requested. Unless the requesting person is the owner of the patent, the Commissioner promptly will send a copy of the request to the owner of record of the patent.

"§ 303. Determination of issue by Commissioner

"(a) Within three months following the filing of a request for reexamination under the provisions of section 302 of this title, the Commissioner will determine whether a substantial new question of patentability affecting any claim of the patent concerned is raised by the request, with or without consideration of other patents or printed publications. On his own initiative, and at any time, the Commissioner may determine whether a substantial new question of patentability is raised by patents and publications discovered by him or cited under the provisions of section 301 of this title.

"(b) A record of the Commissioner's determination under subsection (a) of this section will be placed in the official file of the patent, and a copy promptly will be given or mailed to the owner of record of the patent and to the person requesting reexamination, if any.

"(c) A determination by the Commissioner pursuant to subsection (a) of this section that no substantial new question of patentability has been raised will be final and nonappealable. Upon such a determination, the Commissioner may

refund a portion of the reexamination fee required under section 302 of this title.

"§ 304. Reexamination order by Commissioner

"If, in a determination made under the provisions of subsection 303(a) of this title, the Commissioner finds that a substantial new question of patentability affecting any claim of a patent is raised, the determination will include an order for reexamination of the patent for resolution of the question. The patent owner will be given a reasonable period, not less than two months from the date a copy of the determination is given or mailed to him, within which he may file a statement on such question, including any amendment to his patent and new claim or claims he may wish to propose, for consideration in the reexamination. If the patent owner files such a statement, he promptly will serve a copy of it on the person who has requested reexamination under the provisions of section 302 of this title. Within a period of two months from the date of service, that person may file and have considered in the reexamination a reply to any statement filed by the patent owner. That person promptly will serve on the patent owner a copy of any reply filed.

"§ 305. Conduct of reexamination proceedings

"After the times for filing the statement and reply provided for by section 304 of this title have expired, reexamination will be conducted according to the procedures established

for initial examination under the provisions of sections 132 and 133 of this title. In any reexamination proceeding under this chapter, the patent owner will be permitted to propose any amendment to his patent and a new claim or claims thereto, in order to distinguish the invention as claimed from the prior art cited under the provisions of section 301 of this title, or in response to a decision adverse to the patentability of a claim of a patent. No proposed amended or new claim enlarging the scope of a claim of the patent will be permitted in a reexamination proceeding under this chapter. All reexamination proceedings under this section, including any appeal to the Board of Appeals, will be conducted with special dispatch within the Office.

"§ 306. Appeal

"The patent owner involved in a reexamination proceeding under this chapter may appeal under the provisions of section 134 of this title, and may seek court review under the provisions of sections 141 to 145 of this title, with respect to any decision adverse to the patentability of any original or proposed amended or new claim of the patent.

"§ 307. Certificate of patentability, unpatentability, and claim cancellation

"(a) In a reexamination proceeding under this chapter, when the time for appeal has expired or any appeal proceeding has terminated, the Commissioner will issue and publish

a certificate canceling any claim of the patent finally determined to be unpatentable, confirming any claim of the patent determined to be patentable, and incorporating in the patent any proposed amended or new claim determined to be patentable.

"(b) Any proposed amended or new claim determined to be patentable and incorporated into a patent following a reexamination proceeding will have the same effect as that specified in section 252 of this title for reissued patents on the right of any person who made, purchased, or used anything patented by such proposed amended or new claim, or who made substantial preparation for the same, prior to issuance of a certificate under the provisions of subsection (a) of this section.".

SEC. 2. Section 41 of title 35, United States Code, is amended to read as follows:

"§ 41. Patent fees

"(a) The Commissioner of Patents will establish fees for the processing of an application for a patent, from filing through disposition by issuance or abandonment, for maintaining a patent in force, and for providing all other services and materials related to patents. No fee will be established for maintaining a design patent in force.

"(b) By the first day of the first fiscal year beginning on or after one calendar year after enactment of this Act, fees

for the actual processing of an application for a patent, other than for a design patent, from filing through disposition by issuance or abandonment, will recover in aggregate 25 per centum of the estimated average cost to the Office of such processing. By the first day of the first fiscal year beginning on or after one calendar year after enactment, fees for the processing of an application for a design patent, from filing through disposition by issuance or abandonment, will recover in aggregate 50 per centum of the estimated average cost to the Office of such processing.

"(c) By the fifteenth fiscal year following the date of enactment of this Act, fees for maintaining patents in force will recover 25 per centum of the estimated cost to the Office, for the year in which such maintenance fees are received, of the actual processing all applications for patents, other than for design patents, from filing through disposition by issuance or abandonment. Fees for maintaining a patent in force will be due three years and six months, seven years and six months, and eleven years and six months after the grant of the patent. Unless payment of the applicable maintenance fee is received in the Patent and Trademark Office on or before the date the fee is due or within a grace period of six months thereafter, the patent will expire as of the end of such grace period. The Commissioner may require the payment of a surcharge as a condition of accepting within such six-month

grace period the late payment of an applicable maintenance fee.

"(d) By the first day of the first fiscal year beginning on or after one calendar year after enactment, fees for all other services or materials related to patents will recover the estimated average cost to the Office of performing the service or furnishing the material. The yearly fee for providing a library specified in section 13 of this title with uncertified printed copies of the specifications and drawings for all patents issued in that year will be $50.

"(e) The Commissioner may waive the payment of any fee for any service or material related to patents in connection with an occasional or incidental request made by a department or agency of the Government, or any officer thereof. The Commissioner may provide any applicant issued a notice under section 132 of this title with a copy of the specifications and drawings for all patents referred to in that notice without charge.

"(f) Fees will be adjusted by the Commissioner to achieve the levels of recovery specified in this section; however, no patent application processing fee or fee for maintaining a patent in force will be adjusted more than once every three years.

"(g) No fee established by the Commissioner under this section will take effect prior to sixty days following notice in the Federal Register.".

SEC. 3. Section 42 of title 35, United States Code, is amended to read as follows:

"§42. Patent and Trademark Office funding

"(a) All fees for services performed by or materials furnished by the Patent and Trademark Office will be payable to the Commissioner.

"(b) All fees paid to the Commissioner and all appropriations for defraying the costs of the activities of the Patent and Trademark Office will be credited to the Patent and Trademark Office Appropriation Account in the Treasury of the United States, the provisions of section 725e of title 31, United States Code, notwithstanding.

"(c) Revenues from fees will be available to the Commissioner of Patents to carry out, to the extent provided for in appropriation Acts, the activities of the Patent and Trademark Office.

"(d) The Commissioner may refund any fee paid by mistake or any amount paid in excess of that required.".

SEC. 4. Section 154 of title 35, United States Code, is amended by deleting the word "issue".

SEC. 5. Section 31 of the Trademark Act of 1946, as amended (15 U.S.C. 1113), is amended to read as follows:

"§ 31. Fees

"(a) The Commissioner of Patents will establish fees for the filing and processing of an application for the registration of a trademark or other mark and for all other services performed by and materials furnished by the Patent and Trademark Office related to trademarks and other marks. Fees will be set and adjusted by the Commissioner to recover in aggregate 50 per centum of the estimated average cost to the Office of such processing. Fees for all other services or materials related to trademarks and other marks will recover the estimated average cost to the Office of performing the service or furnishing the material. However, no fee for the filing or processing of an application for the registration of a trademark or other mark or for the renewal or assignment of a trademark or other mark will be adjusted more than once every 3 years. No fee established under this section will take effect prior to sixty days following notice in the Federal Register.

"(b) The Commissioner may waive the payment of any fee for any service or material related to trademarks or other marks in connection with an occasional request made by a department or agency of the Government, or any officer thereof. The Indian Arts and Crafts Board will not be charged any fee to register Government trademarks of genuineness and quality for Indian products or for products of particular Indian tribes and groups.".

SEC. 6. Title 35 of the United States Code, entitled "Patents", is amended by adding after chapter 37 the following new chapter 38:

"CHAPTER 38—THE GOVERNMENT PATENT POLICY ACT OF 1980

"Sec. 381. Title.

"SUBCHAPTER I—CONTRACT INVENTIONS

"Sec. 382. Contract inventions; reporting.
"Sec. 383. Allocation of rights—small businesses and nonprofit organizations.
"Sec. 384. Allocation of rights—other contractors.
"Sec. 385. Contractor license.
"Sec. 386. Minimum Government rights.
"Sec. 387. March-in rights.
"Sec. 388. Deviation and waiver.
"Sec. 389. Transfer of rights to contractor employees.
"Sec. 390. Regulations and standard patent rights clause.

"SUBCHAPTER II—INVENTIONS OF FEDERAL EMPLOYEES

"Sec. 391. Employee inventions.
"Sec. 392. Reporting of inventions.
"Sec. 393. Criteria for the allocation of rights.
"Sec. 394. Presumptions.
"Sec. 395. Review of agency determinations.
"Sec. 396. Reassignment of rights.
"Sec. 397. Incentive awards program.
"Sec. 398. Income sharing from patent licenses.
"Sec. 399. Regulations.

"SUBCHAPTER III—LICENSING OF FEDERALLY-OWNED INVENTIONS

"Sec. 400. Covered inventions.
"Sec. 401. Exclusive or partially exclusive licenses.
"Sec. 402. Minimum Government rights.
"Sec. 403. March-in rights.
"Sec. 404. Regulations.

"SUBCHAPTER IV—MISCELLANEOUS

"Sec. 405. Patent enforcement suits and right of intervention.
"Sec. 406. Background rights.
"Sec. 407. Notice, hearing, and judicial review.
"Sec. 408. Relationship to other laws.
"Sec. 409. Authority of Federal agencies.
"Sec. 410. Responsibilities of the Secretary of Commerce.
"Sec. 411. Definitions.

"SEC. 381. This chapter will be known as the 'Government Patent Policy Act of 1980'.

"SUBCHAPTER I—CONTRACT INVENTIONS

"§ 382. Contract inventions; reporting

"(a) This title applies to 'contract inventions', which in this Act are inventions made in the course of or under Federal contracts.

"(b) Every contractor will provide the responsible agency with timely written reports on each contract invention containing:

"(1) a comprehensive technical disclosure of the invention, and

"(2) a list of each country, if any, in which the contractor elects to file a patent application on the invention;

The Government neither will publish nor release these reports until the contractor or the Government has had a reasonable time to file patent applications or one year has passed since receipt of the disclosure required by subsection (b)(1) of this section, whichever is earlier, the Government also will so withhold such disclosure from other reports or records.

"(c) If the responsible agency determines that the contractor has unreasonably failed to file reports as required by

subsection (b) of this section as to a contract invention, the contractor may be deprived of any or all the rights it otherwise would have under this subchapter pertaining to such contract invention.

"§ 383. Allocation of rights—small businesses and nonprofit organizations

"(a) A contractor that is a small business or a nonprofit organization will acquire title to its contract invention in each country it lists under section 382(b)(2) in which it files a patent application within a reasonable time. However, title will be subject to the Government's minimum rights under section 386 and march-in rights under section 387.

"(b) The Government will have the right to acquire title to any patent on a contract invention in each country in which the contractor elects not to file a patent application or fails to file within a reasonable time.

"§ 384. Allocation of rights—other contractors

"(a) A contractor that is not a small business or a nonprofit organization shall provide to the responsible agency, within four and one-half years from the filing under section 382(b) of a report disclosing a contract invention, a list or lists of each field of use in which the contractor intends to commercialize the invention or otherwise achieve public use of the invention; but no such list shall be required for contract inventions on which the contractor did not elect to file

any patent application. During such four and one-half year period the contractor shall hold temporary title to the contract invention, subject to the rights of the Government provided elsewhere in this Act. Each field will be described with sufficient particularity to allow the Government to identify those fields of use not encompassed by the described field. Upon the filing of such a completed list, or at the end of the four and one-half year period, whichever is earlier, the Government will acquire from the contractor title to all United States patents on such inventions. Neither the contractor nor any sublicensee may market or use commercially any product or process embodying the patented invention, except under the nonexclusive license granted pursuant to section 385, unless the contractor has described a field of use which embraces the product or process and has reported the field of use to the responsible agency pursuant to this section; but failure to file a field of use list prior to marketing or prior to using commercially any product or process embodying an invention shall be excused if such failure resulted from inadvertance, mistake, or excusable neglect.

"(b) If such contractor has filed a United States patent application within a reasonable time after it has disclosed an invention under section 382(b)(1), it will receive an exclusive license in each described field of use, with the exclusive right to sublicense, under each United States patent or patent

application transferred to the Government under subsection (a) of this section 384. However, its license will be subject to the Government's minimum rights under section 386 and march-in rights under section 387.

"(c) The contractor automatically will acquire by operation of law the right to receive an exclusive license, pursuant to subsection (b) of this section in each described field of use, ninety days after it provides the responsible agency with a description of such fields of use pursuant to subsection (a), except that it will not acquire the right to receive an exclusive license in any field of use as to which the agency notifies the contractor within the ninety-day period that it has made a determination under subsection (d) of this section.

"(d) The contractor will not acquire an exclusive license in any field of use if the responsible agency determines that the contractor's possession of such a license—

"(1) would impair national security; or

"(2) would create or maintain a situation inconsistent with the antitrust laws.

"(e) An agency determination under subsection (d) of this section will include written reasons for the determination. The contractor may appeal the determination to the United States Court of Customs and Patent Appeals within sixty days after the contractor has been notified of the determination. That court will have exclusive jurisdiction to deter-

mine the matter de novo and to affirm, reverse, or modify the agency determination, specifically including authority to require that the contractor receive any exclusive license provided for by this section.

"(f) A contractor that is not a small business or a nonprofit organization will acquire title to its contract invention in each foreign country it lists under section 382(b)(2) in which it files a patent application within a reasonable time unless the agency determines that the national interest would be affected adversely. However, title will be subject to the Government's minimum rights under section 386 and march-in rights under section 387. The Government will have the right to acquire title to any patent on a contract invention in each country in which the contractor elects not to file a patent application or fails to file within a reasonable time.

"§ 385. Contractor license

"Any contractor that complies with section 382(b) automatically will receive by operation of law nonexclusive, royalty-free licenses to practice the contract invention in all countries where it does not receive title under section 383 or 384 and in all fields of use in the United States in which it does not hold an exclusive license under section 384. These nonexclusive licenses may be revoked only to the extent nec-

essary to allow the Government to grant exclusive licenses under subchapter III.

"§ 386. Minimum Government rights

"(a) The Government will have the following minimum rights in any contract invention:

"(1) the right to require from the contractor written reports on the use of the invention, if patented,

"(2) a royalty-free worldwide right or license to practice the invention or have it practiced for the Government, and

"(3) the right to license or sublicense State and local governments to practice the invention or have it practiced for them, if the agency determines at the time of contracting that acquisition of this right would serve the national interest.

"(b) Whenever the Government has rights in any invention under this title, each United States patent application and patent on the invention will include a statement that the invention was made with Government sponsorship or support and that the Government has rights in the patent.

"§ 387. March-in rights

"(a) In any field of use, the Government may wholly or partly terminate the contractor's title or exclusive rights in any patent on a contract invention; may require the contractor to grant appropriate licenses or sublicenses to responsible

applicants; or, if necessary, may grant such licenses or sublicenses itself. The Government may take such actions only—

"(1) if the contractor has not taken and is not expected to take timely and effective action to achieve practical application of the invention in one or more of the selected fields of use;

"(2) if necessary to protect the national security;

"(3) if necessary to meet requirements for public use specified by Federal regulation;

"(4) if continuation of the contractor's rights in the invention would create or maintain a situation inconsistent with the antitrust laws; or

"(5) if the contractor has failed to comply with the reporting requirements of this Act with respect to such invention.

"(b) These march-in rights may be exercised by the responsible agency on its own initiative or on a petition from an interested person justifying such action.

"(c) Whenever under this section an agency requires a contractor to grant a license or sublicense, it may specify reasonable terms, including the royalties to be charged, if any; the duration of the license or sublicense; the scope of exclusivity; and the fields of use to be covered.

"§ 388. Deviation and waiver

"(a) An agency may deviate from the allocation of patent rights in contract inventions provided for in any standard patent rights clause established under section 390 acquiring more or fewer rights in the inventions, to further the agency's mission and the public interest. It may so deviate on a class basis only in accordance with regulations issued either under section 390 or, unless prohibited by those regulations, by the agency. Case-by-case deviations must be authorized by the head of the agency or his designee, and described in the Federal Register.

"(b) The national security and antitrust march-in rights reserved by sections 387(a)(2), 387(a)(4), and 387(c) may not be waived under any circumstances.

"(c) Rights reserved by sections 384 and 387(a)(1) may be waived only:

"(1) in contracts involving cosponsored, cost-sharing, or joint-venture research or development to which the contractor makes a substantial contribution of funds, facilities, technology, or equipment; or

"(2) in contracts with a contractor whose participation is necessary for the successful accomplishment of the agency's mission but cannot be obtained under the standard patent rights clause.

"§ 389. Transfer of rights to contractor employees

"The contractor's employee-inventor may receive some or all of the contractor's rights under this subchapter with the permission of the contractor and the approval of the responsible agency. The corresponding obligations of the contractor under this subchapter then will become obligations of the employee-inventor.

"§ 390. Regulations and standard patent rights clause

"(a) The Office of Federal Procurement Policy will direct the issuance of regulations to implement this title. The regulations will establish a standard patent right clause or clauses, to be included in each Federal contract except as provided in section 388.

"(b) Such regulations shall provide payment to the Government for Federal funding of research and development activities through the sharing of royalties and/or revenues with the contractor. Such regulations shall provide, to the extent appropriate, a standard contractual clause to be included in all Federal research and development contracts.

"(c) Such regulations may allow the agency to waive all or part of the payment set forth in subsection (a) of this section at the time of contracting or at the request of the contractor where the agency determines that—

"(1) the probable administrative costs are likely to be greater than the expected amount of payment; or

"(2) the Federal Government's contribution to the technology as licensed or utilized is insubstantial compared with private investment made or to be made in technology; or

"(3) the contractor is a small business, educational institution, or nonprofit organization; or

"(4) the total Government funding of the technology with the contractor is less than $1,000,000; or

"(5) the payment would place the contractor at a competitive disadvantage or would stifle commercial utilization of the technology; or

"(6) it is otherwise in the best interests of the Government and the general public.

"(d) Such regulations shall be promulgated within twelve months of enactment of this section. Until they become effective, each agency shall obtain payment on behalf of the Federal Government for its research and development activities on a contract-by-contract basis in a manner consistent with the provisions of this section.

"SUBCHAPTER II—INVENTIONS OF FEDERAL EMPLOYEES

"§ 391. Employee inventions

"This subchapter applies to 'employment inventions', which in this Act are inventions made by Federal employees.

"§ 392. Reporting of inventions

"(a) Federal employees will file timely written reports on any inventions they make. Such reports will be made to the employee's agency and will contain complete technical information concerning the invention. The Government neither will publish nor release a report until there has been a reasonable time to file patent applications or until one year has passed since the final disposition of rights under this subchapter, whichever is earlier.

"(b) If the responsible agency determines that the employee-inventor unreasonably has failed to file a report as required by subsection (a) of this section, the employee may be deprived of any or all of the rights he otherwise would have under this subchapter.

"§ 393. Criteria for allocation of rights

"The responsible agency will determine the rights of the Government and of Federal employee-inventors in any inventions made by employee-inventors through the use of the following criteria:

"(1) If the invention bears a direct relation to the duties of the employee-inventor or was made in consequence of his employment, the Government will acquire all rights in the invention.

"(2) If the invention neither bears a direct relation to the duties of the employee-inventor nor was made in consequence of his employment, but was made

with a contribution from Federal funds, facilities, equipment, materials, or information not generally available to the public, or from services of other Federal employees on official duty, the employee-inventor will receive all rights in the invention, except as provided in paragraph (4) of this section. However, these rights will be subject to a nonexclusive, royalty-free, worldwide license to the Government to practice the invention or have it practiced for the Government.

"(3) If the agency finds insufficient interest in an invention to justify exercising its rights under paragraph (1) of this section, it may permit the employee-inventor to receive any or all of those rights, subject to the Government's rights as described in paragraph (2) of this section. However, nothing in this paragraph will prevent the agency from publishing the invention or otherwise dedicating it to the public.

"(4) If the agency determines that national security might be impaired if the employee-inventor were to receive rights in an invention under paragraphs (2) or (3) of this section, the Government will acquire all rights in the invention.

"(5) The Government will claim no rights under this Act in any employee-invention not covered by paragraphs (1) or (2) of this section.

"(6) Notwithstanding paragraph (1) of this section, an agency may enter into agreements providing for appropriate allocation of rights in inventions that result from research or development to which other parties have substantially contributed.

"§ 394. Presumptions

"(a) There will be a rebuttable presumption that an employee invention falls within the criteria of section 393(1) if it was made by a Federal employee who is employed or assigned to—

"(1) invent, improve, or perfect any art, machine, manufacture, or composition of matter;

"(2) conduct or perform research or development work;

"(3) supervise, direct, coordinate, or review federally sponsored or supported research or development work; or

"(4) act as liaison among agencies or individuals engaged in the work specified in paragraphs (1), (2), or (3) of this subsection.

"(b) There will be a rebuttable presumption that an invention falls within the criteria of section 393(2) if it was made by any other Federal employee.

"§ 395. Review of agency determinations

"Agency determinations under sections 392 and 393 will be reviewed whenever—

"(1) the agency determines not to acquire all rights in an invention, or

"(2) an aggrieved employee-inventor requests a review.

Standards and procedures for this review will be prescribed in the regulations issued under section 399.

"§ 396. Reassignment of rights

"If an agency finds on the basis of new evidence that it has acquired rights in an invention greater than those to which the Government was entitled under the criteria of section 393, it will grant the employee-inventor such rights as may be necessary to correct the error.

"§ 397. Incentive awards program

"(a) Agencies may monetarily reward and otherwise recognize employee-inventors as an incentive to promote employee inventions and the production and disclosure of employee inventions. For this purpose agencies may make awards under the Federal incentive awards system (5 U.S.C. ch. 45, 10 U.S.C. ch. 57, and implementing regulations), as modified by this section.

"(b) The amount of an award for an invention will be based on—

"(1) the extent to which the invention advances the state of the art;

"(2) the scope of application of the invention;

"(3) the value of the invention to the Government or the public; and

"(4) the extent to which the invention has come into public use.

"(c) Awards for an invention of up to $10,000 may be made by the head of an agency.

"(d) Awards of over $10,000 but less than $35,000 may be made by the head of an agency to—

"(1) civilian employees, with the approval of the Office of Personnel Management;

"(2) members of the Armed Forces, with the approval of the Secretary of Defense;

"(3) members of the United States Coast Guard when not operating as a service in the Navy, with the approval of the Secretary of Transportation;

"(4) members of the Commissioned Corps of the United States Public Health Service, with the approval of the Secretary of Health and Human Services; and

"(5) members of the Commissioned Corps of the National Oceanic and Atmospheric Administration, with the approval of the Secretary of Commerce.

"(e) Awards of more than $35,000 may be made to employee-inventors by the President upon recommendation of the head of an agency.

"(f) Acceptance of a cash award under this section constitutes an agreement that any Government use of an invention for which the award is made forms no basis for further claims against the Government by the recipient, his heirs, or his assigns.

"(g) Any cash award or expense for honorary recognition of an employee-inventor will be paid from the fund or appropriation of the agency receiving the invention's primary benefit.

"§ 398. Income sharing from patent licenses

"In addition to awards as provided in section 397, an agency may share income received from any patent license with the employee-inventor.

"§ 399. Regulations

"(a) The Commissioner of Patents shall issue regulations to implement this title.

"(b) Any determination of an appointing official under subsection 208(b) of title 18, United States Code, that relates to promotion of an employee invention by the employee-inventor will be subject to regulations prescribed by the Secretary of Commerce with concurrence of the Office of Government Ethics and the Attorney General.

"SUBCHAPTER III—LICENSING OF FEDERALLY OWNED INVENTIONS

"§ 400. Covered inventions

"This subchapter applies to the licensing of all federally owned patent rights, including licenses or sublicenses granted or required to be granted by the Government under section 387. However, it does not apply to licenses established by the other sections of subchapter I of this chapter.

"§ 401. Exclusive or partially exclusive licenses

"(a) An agency may grant exclusive or partially exclusive domestic licenses under federally owned patent rights not automatically licensed under section 384 only if, after public notice and opportunity for filing written objections, it determines that—

"(1) the desired practical application is not likely to be achieved under a nonexclusive license; and

"(2) the scope of proposed exclusivity is not greater than reasonably necessary.

"(b) An agency may grant exclusive or partially exclusive foreign licenses under federally owned patent rights after public notice and opportunity for filing written objections and after determining whether the interests of the Government or of United States industry in foreign commerce will be enhanced.

68-957 O—80——3

"(c) An agency will not grant a license under this section if it determines that such a grant would create or maintain a situation inconsistent with the antitrust laws.

"(d) Agencies will maintain periodically updated records of determinations to grant exclusive or partially exclusive licenses. These records will be publicly available.

"§ 402. Minimum Government rights

"Each license granted under section 401 will contain such terms and conditions as the agency finds appropriate to protect the interests of the Government and the public, including provisions reserving to the Government:

"(1) The right to require from the licensee written reports on the use of the invention,

"(2) A royalty-free, worldwide right to practice the invention or have it practiced for the Government, and

"(3) The right to license State and local governments to practice the invention or have it practiced for them if the agency determines that reservation of this right would serve the national interest.

"§ 403. March-in rights

"(a) The Government will have the right to terminate any license granted under section 401 in whole or in part, but only—

"(1) if the licensee has not taken and is not expected to take timely and effective action to achieve practical application of the invention in each of the fields of use affected;

"(2) if necessary to protect national security;

"(3) if necessary to meet requirements for public use specified by Federal regulation;

"(4) if the continuation of the licensee's rights in the invention would create or maintain a situation inconsistent with the antitrust laws; or

"(5) if the licensee has failed to comply with the terms of the license.

"(b) These march-in rights may be exercised by the responsible agency on its own initiative or on a petition from an interested person justifying such action.

"§ 404. Regulations

"The Office of Federal Procurement Policy will direct the issuance of regulations specifying the terms and conditions upon which federally owned patent rights may be licensed. An agency may deviate from such regulations on a class basis unless prohibited by the Office of Federal Procurement Policy.

"SUBCHAPTER IV—MISCELLANEOUS

"§ 405. Patent enforcement suits and right of intervention

"(a) Any exclusive licensee under this chapter may enforce its exclusive rights under the licensed patent by bringing suit without joining the United States or any other exclusive licensee as a party. However, the licensee will give prompt notice of the suit, or, of any suit filed against it respecting the patent, to the Attorney General and the agency that granted the license, and all parties will serve copies of papers on the Attorney General and the responsible agency as though they were parties to the suit.

"(b) When the responsible agency is informed of any suit filed by an exclusive licensee, by the Government, or by any other person respecting a patent subject to the provisions of this chapter, it promptly will give notice to all its licensees under the patent. Any exclusive licensee will be entitled to intervene as a party in such a suit in which the validity or scope of the license patent is, or is likely to be, placed in issue.

"§ 406. Background rights

"Nothing contained in this chapter will be construed to deprive the owner of any background patent or of rights under such a patent.

"§ 407. Notice, hearing, and judicial review

"(a) Agency determinations under sections 382, 387(a), and 387(c), and 403 will be made after public notice and opportunity for a hearing in which the United States, any agency, or any interested person may participate, and will include written reasons for the determination.

"(b) The United States or any participant that may be adversely affected by an agency determination covered by subsection (a) of this section may appeal the determination to the United States Court of Customs and Patent Appeals within sixty days after the determination is issued. That court will have exclusive jurisdiction to determine the matter de novo and to affirm, reverse, or modify the agency determination.

"§ 408. Relationship to other laws

"Nothing in this chapter creates any immunities or defenses to actions under the antitrust laws.

"§ 409. Authority of Federal agencies

"(a) Agencies may apply for, obtain, maintain, and protect patent rights in the United States and in foreign countries on any invention in which the Government has an interest in order to promote the use of inventions having significant commercial potential or otherwise advance the national interest.

"(b) Agencies may license federally owned patent rights on terms and conditions consistent with subchapter III.

"(c) Agencies may transfer patent rights to other agencies and accept them from other agencies, in whole or in part, without regard to the Federal Property and Administrative Services Act of 1949 (40 U.S.C. 471).

"(d) Agencies may withhold publication or release of information disclosing any invention long enough for patent applications to be filed.

"(e) Agencies may promote licensing of federally owned patent rights by making market surveys, acquiring technical information, or otherwise enhancing the marketability of the inventions.

"(f) Agencies may enter into contracts necessary and appropriate to accomplish the purposes of this section.

"§ 410. Responsibilities of the Secretary of Commerce

"(a) The Commissioner of Patents will—

"(1) consult with other agencies about areas of science and technology with potential for commercial development.

"(2) coordinate a program to help agencies in exercising the authority given by section 409.

"(3) evaluate inventions referred by agencies to identify those with the greatest commercial potential and to promote their public use;

"(4) help agencies seek and maintain patents in the United States and in foreign countries by paying fees and costs and by other means;

"(5) develop and manage a Government-wide program, with appropriate private sector participation, to stimulate transfer to the private sector of potentially valuable federally-owned technology through dissemination of information about the technology;

"(6) publish notice of all federally-owned patent rights that are available for licensing; and

"(7) seven years after the date of enactment of this Act, submit to the President and Congress a report describing the operation of this chapter and containing recommendations, if any, for further amendments to promote industrial innovation in the United States.

"(b) There is authorized to be appropriated to the Commissioner of Patents such sums as may be necessary to enable the Commissioner to carry out responsibilities under this section.

"§ 411. Definitions

"As used in this chapter—

"(1) 'Agency' means an 'executive agency' of the Federal Government, as defined by section 105 of title 5, United States Code, and the military departments defined by section 102 of title 5, United States Code.

'Responsible agency' means the agency which is party to a contract for the performance of research or development, has received patent rights from another agency, or has administrative jurisdiction over an employee-inventor. The Tennessee Valley Authority shall not be considered an 'agency' for the purposes of this chapter; and this chapter shall not apply to its patent rights, contracts, and employees.

"(2) 'Antitrust laws' means the laws included within the definition of the term 'Antitrust laws' in section 1 of the Clayton Act (15 U.S.C. 12), as amended.

"(3) 'Contract' means any Federal contract, cooperative agreement, or grant that provides for performance of research or development substantially funded by the Government. It covers any assignment, substitution of parties, or subcontract of the same type under such a contract. It does not cover Federal price or purchase supports, or Federal loans or loan guarantees.

"(4) 'Contractor' means any person other than an agency that is a party to a contract.

"(5) 'Federal employee' means any civil service employee as defined in section 2105 of title 5, United States Code, and any member of the uniformed services.

"(6) 'Invention' means any invention that is or may be patentable under the laws of the United States. 'Contract invention' is defined by section 382. 'Employee invention' is defined by section 391.

"(7) 'Made' when used in relation to any invention means conceived or first actually reduced to practice.

"(8) 'Nonprofit organization' means universities and other institutions of higher education or an organization of the type described in section 501(c)(3) of the Internal Revenue Code of 1954 (26 U.S.C. 501(c)) and exempt from taxation under section 501(a) of the Internal Revenue Code (26 U.S.C. 501(a)) or any nonprofit scientific or educational organization qualified under a State nonprofit organization statute.

"(9) 'Patent rights' means patents and patent licenses and sublicenses.

"(10) 'Practical application' means manufacture of a machine, composition, or product, or practice of a process or system, under conditions which establish that the invention is being worked and its benefits are available to the public on reasonable terms.

"(11) 'Small business' means a small business concern, as defined in section 2 of Public Law 85–536

(15 U.S.C. 632) and implementing regulations of the Administrator of the Small Business Administration.

"(12) 'State' means a State or territory of the United States, the District of Columbia, or the Commonwealth of Puerto Rico. 'Local' refers to any domestic county, municipality, or other governmental entity.

"(13) 'Will', except as the context otherwise requires, has the same meaning as 'shall'.".

SEC. 7. (a) Section 10(a) of the Act of June 29, 1935, as added by title 1 of the Act of August 14, 1946 (7 U.S.C. 427i(a); 60 Stat. 1085) is amended by striking out the following: "Any contracts made pursuant to this authority shall contain requirements making the results of research and investigations available to the public through dedication, assignment to the Government, or such other means as the Secretary shall determine.".

(b) Section 205(a) of the Agricultural Marketing Act of 1946 (7 U.S.C. 1624(a); 60 Stat. 1090) is amended by striking out the following: "Any contract made pursuant to this section shall contain requirements making the result of such research and investigations available to the public by such means as the Secretary of Agriculture shall determine.".

(c) Section 501(c) of the Federal Mine Safety and Health Act of 1977 (30 U.S.C. 951(c); 83 Stat. 742) is

amended by striking out the following: "No research, demonstrations, or experiments shall be carried out, contracted for, sponsored, cosponsored, or authorized under authority of this Act, unless all information, uses, products, processes, patents, and other developments resulting from such research, demonstrations, or experiments will (with such exception and limitation, if any, as the Secretary of the Interior or the Secretary of Health, Education, and Welfare in coordination with the Secretary may find to be necessary in the public interest) be available to the general public.".

(d) Section 106(c) of the National Traffic and Motor Vehicle Safety Act of 1966 (15 U.S.C. 1395(c); 80 Stat. 721) is repealed.

(e) Section 12 of the National Science Foundation Act of 1950 (42 U.S.C. 1871; 64 Stat. 149, 154) is repealed.

(f) Section 152 of the Atomic Energy Act of 1954 (42 U.S.C. 2182; 68 Stat. 943) is repealed.

(g) The National Aeronautics and Space Act of 1958 (72 Stat. 426) is amended—

(1) by repealing section 305 (42 U.S.C. 2457). However, subsections (c), (d), and (e) of section 305 shall continue to be effective with respect to any application for patents in which the written statement referred to in subsection (c) of such section has been filed

or requested to be filed by the Commissioner of Patents and Trademarks before the effective date of this Act;

(2) by striking out, in section 306(a) (42 U.S.C. 2458(a)), "(as defined by section 305)"; and by striking out "the Inventions and Contributions Board, established under section 305 of this Act" and inserting instead: "an Inventions and Contributions Board which shall be established by the Administrator within the Administration";

(3) by inserting at the end of section 203(c) (42 U.S.C. 2473(c)) the following new paragraph:

"(14) to provide effective contractual provisions for reporting the results of the activities of the Administration, including full and complete technical reporting of any innovation made in the course of or under any contract of the Administration.";

(4) by inserting at the end of section 203 (42 U.S.C. 2473) the following new subsection:

"(d) For the purposes of chapter 17 of title 35 of the United States Code the Administration shall be considered a defense agency of the United States."; and

(5) by striking out the following in such section 203(c)(3): "(including patents and rights thereunder)".

(h) Section 6 of the Act entitled "An Act to encourage and stimulate the production and conservation of coal in the

United States through research and development by authorizing the Secretary of the Interior to contract for coal research, and for other purposes", approved July 7, 1960 (30 U.S.C. 666; 74 Stat. 337), is repealed.

(i) Section 4 of the Helium Act Amendments of 1960 (50 U.S.C. 167b; 74 Stat. 920) is amended by striking out the following: "Provided, however, That all research contracted for, sponsored, cosponsored, or authorized under authority of this Act shall be provided for in such a manner that all information, uses, products, processes, patents, and other developments resulting from such research developed by Government expenditure will (with such exceptions and limitations, if any, as the Secretary may find to be necessary in the interest of national defense) be available to the general public: And provided further, That nothing contained herein shall be construed as to deprive the owner of any background patent relating thereto to such rights as he may have thereunder." and by inserting instead a period.

(j) Section 32 of the Arms Control and Disarmament Act (22 U.S.C. 2572; 75 Stat. 634) is repealed.

(k) Subsection (e) of section 302 of the Appalachian Regional Development Act of 1965 (40 U.S.C. App. 302(e); 79 Stat. 5) is repealed.

(l) Except for subsection (1), section 9 of the Federal Nonnuclear Energy Research and Development Act of 1974 (42 U.S.C. 5901; 88 Stat. 1878) is repealed.

(m) Section 5(i) of the Tennessee Valley Authority Act of 1933 (16 U.S.C. 831d(i); 48 Stat. 61), is amended by striking both proviso clauses at the end.

(n) Section 5(d) of the Consumer Product Safety Act (15 U.S.C. 2054(d); 88 Stat. 1211), is repealed.

(o) Section 3 of the Act of April 5, 1944 (30 U.S.C. 323; 58 Stat. 191), is repealed.

(p) The Resources Conservation and Recovery Act of 1976 (90 Stat. 2795) is amended—

(1) by repealing section 8001(c)(3) (42 U.S.C. 6981(c)(3); 90 Stat. 2831); and

(2) by striking out, in section 8004(c)(2) (42 U.S.C. 6984(c)(2)) the second sentence, "notwithstanding section 8001(c)(3),".

(q) Section 12 of the Electric and Hybrid Vehicle Research, Development, and Demonstration Act of 1976 (15 U.S.C. 2511; 90 Stat. 1269) is repealed.

(r) Paragraph (r) of section 19 (as added by Public Law 95–238) of the Federal Nonnuclear Energy Research and Development Act of 1974, Public Law 93–577, as amended, Public Law 95–238, is repealed; subparagraph

(g)4 of said section 19 is amended by striking "under section 9 of this Act" in the first sentence.

(s) Section 112(d)(2) of Public Law 95–39, enacted on June 3, 1977, is amended by striking "shall be governed by the provisions of section 9 of the Federal Nonnuclear Energy Research and Development Act of 1974 and".

(t) Section 408 of the Water Research and Development Act of 1978 (42 U.S.C. 7879; 92 Stat. 1316) is repealed.

SEC. 8. (a) Sections 2, 4, and 5 of this Act will take effect upon enactment.

(b) Section 1 of this Act will take effect on the first day of the seventh month beginning after its enactment and will apply to patents in force as of that date or issued thereafter.

(c) Section 3 of this Act will take effect on the first day of the first fiscal year beginning on or after one calendar year after enactment. However, until section 3 takes effect, the Commissioner may credit the Patent and Trademark Office appropriation account in the Treasury of the United States with the revenues from collected reexamination fees, which will be available to pay the costs to the Office of reexamination proceedings.

(d) Any fee in effect as of the date of enactment of this Act will remain in effect until a corresponding fee established under section 41 of title 35, United States Code, or section 1113 of title 15, United States Code, takes effect.

(e) Fees for maintaining a patent in force will not be applicable to patents applied for prior to the date of enactment of this Act.

(f) Sections 6 and 7 of this Act will take effect on the first day of the seventh month beginning after its enactment. Implementing regulations may be issued earlier.

SEC. 9. On or before July 1, 1981, the Comptroller General of the United States shall submit to the Congress and the President a report describing the functioning of the Patent and Trademark Office, the Copyright Office, and the Copyright Royalty Tribunal. Such report shall analyze the efficiency of each of these agencies in achieving its statutory mission and make recommendations for change including recommendations on the desirability of merging the Copyright Office and the Copyright Royalty Tribunal with the Patent and Trademark Office.

SEC. 10. (a) The Commissioner of Patents and Trademarks shall report to Congress, within six months of the effective date of this Act, a plan to identify, and if necessary develop or have developed, computerized data and retrieval systems equivalent to the latest state of the art which can be applied to all aspects of the operation of the Patent and Trademark Office, and particularly to the patent search file, the patent classification system, and the trademark search file. The report shall specify the cost of implementing the

plan, how rapidly the plan can be implemented by the Patent and Trademark Office, without regard to funding which is or which may be available for this purpose in the future.

(b) Until such computer technology is fully implemented within the Patent and Trademark Office, the Commissioner shall report to Congress every six months on the progress being made in improving upon and implementing a program of applying the most modern computer technology, to operate the Patent and Trademark Office.

SEC. 11. (a) Title 35 of the United States Code is amended as follows:

(1) section 1 is amended to read as follows:

"§ 1. Establishment

"The Patent and Trademark Office, referred to in this chapter as the 'Office', shall be an independent agency, where records, books, drawings, specifications, and other papers and things pertaining to patents and to trademark registrations shall be kept and preserved, except as otherwise provided by law.";

(2) section 3(a) is amended by striking out the last sentence and inserting in lieu thereof the following: "The Commissioner shall be the Chief Officer of the Office and shall be a person knowledgeable in patent and trademark matters. The Commissioner shall be appointed for a fixed term of six years and shall be

removable from office by the President for good cause. The Commissioner shall appoint all other officers and employees of the Office.";

(3) section 3(b) is repealed;

(4) section 3(c) is amended by striking out "Secretary of Commerce" and inserting in lieu thereof "Commissioner" and such section is redesignated as section 3(b);

(5) in section 6, strike out ", under the direction of the Secretary of Commerce," and ", subject to the approval of the Secretary of Commerce," each time they appear therein;

(6) in section 7, strike out "Secretary of Commerce" and insert in lieu thereof "Commissioner";

(7) in section 31, strike out ", subject to the approval of the Secretary of Commerce,";

(8) in the last sentence of the third paragraph of section 181, strike out "a right to appeal to the Secretary of Commerce" and insert in lieu thereof "a right to appeal from the order under rules prescribed by the Commissioner"; and

(9) in section 188, strike out "Secretary of Commerce" and insert in lieu thereof "Commissioner of Patents and Trademarks".

(b) Section 12(e) of the Act of February 14, 1903 (15 U.S.C. 1511(e)), is repealed.

SEC. 12. (a) Section 101 of title 17 of the United States Code is amended to add at the end thereof the following new language:

"A 'computer program' is a set of statements or instructions to be used directly or indirectly in a computer in order to bring about a certain result.".

(b) Section 117 of title 17 of the United States Code is amended to read as follows:

"§ 117. Limitations on exclusive rights: Computer programs

"Notwithstanding the provisions of section 106, it is not an infringement for the owner of a copy of a computer program to make or authorize the making of another copy or adaptation of that computer program provided:

"(1) that such a new copy or adaptation is created as an essential step in the utilization of the computer program in conjunction with a machine and that it is used in no other manner, or

"(2) that such new copy or adaptation is for archival purposes only and that all archival copies are destroyed in the event that continued possession of the computer program should cease to be rightful.

"Any exact copies prepared in accordance with the provisions of this section may be leased, sold, or otherwise trans-

ferred, along with the copy from which such copies were prepared, only as part of the lease, sale, or other transfer of all rights in the program. Adaptations so prepared may be transferred only with the authorization of the copyright owner.".

Amend the title so as to read: "A bill to amend the patent and trademark laws.".

Mr. BROOKS. The referral was made because there are matters in the bill which clearly fall within the jurisdiction of our committee.

H.R. 6933 amends existing patent laws by instituting a procedure for the reexamination of patents, revising the fee structure for patent applications, inaugurating the new Government patent policy, a policy on inventions of Federal employees and the licensing of federally owned inventions, repealing a number of statutory provisions involving patents, and taking the Patent and Trademark Office out of the Department of Commerce and making it an independent agency, among other purposes.

The bill contains provisions involving Government procurement and reorganization which are in the jurisdiction of the Government Operations Committee.

We are particularly interested in section 6, which establishes new patent policy because it deals with inventions made in the course of or under Federal contracts. A major question for us is, should the title to and exclusive control of such patented inventions be retained by the Government for the benefit of all the people or given to private contractors whose work was financed with public funds—tax money?

The bill under the circumstances outlined therein would give exclusive rights to such inventions to those private contractors who could then exploit them as they see fit.

Another feature of the bill we should consider will separate the Patent Office from the Department of Commerce where it has existed for many years and make it an independent agency reporting directly to the President. Allegedly, this would solve various internal problems between the Patent Office and the Department and produce greater efficiency in the conduct of patent operations and its service to the public. Some of us are not too certain of that result and would like to explore this reorganization further.

There are other aspects of the legislation which merit the consideration of this committee, such as the role of the Office of Procurement Policy in carrying out its new policy and the bill's treatment of computers and computer programs. All of these matters will be considered during our hearings.

Unfortunately, we were given only 2 weeks to consider this complex bill, and our action is supposed to be completed by September 23. We cannot, therefore, hear all the witnesses we would like to hear and whose testimony would be beneficial to the subcommittee. We hope that those who desire to file written statements for our study will certainly do so.

This morning we will hear from the Honorable Philip M. Klutznick, Secretary of Commerce, who will be followed by our old friend, Admiral Rickover of the Defense and Energy Departments.

Mr. Horton, the gentleman from New York, do you have any comments, sir?

Mr. HORTON. Mr. Chairman, I have a statement which I would like to ask unanimous consent to put in the record at this point.

Mr. BROOKS. Without objection, it is so ordered.

[Mr. Horton's prepared statement follows:]

STATEMENT OF THE HONORABLE FRANK HORTON, M.C.

WITH REGARD TO H.R. 6933, A BILL TO AMEND THE PATENT & TRADEMARK LAWS

FOR THE RECORD OF HEARINGS BEFORE THE SUBCOMMITTEE ON LEGISLATION AND NATIONAL SECURITY, SEPTEMBER 16, 1980

Mr. Chairman, I am glad to see that H.R. 6933, a bill to amend the patent and trademark laws, has been sequentially referred to this Committee. Although the general subject matter of the legislation was properly before the Judiciary Committee, two aspects of the measure clearly deserve our consideration. One has to do with policy with regard to government patents; the other concerns the organizational placement of the Patent and Trademark Office.

The Judiciary Committee has proposed major changes with respect to both these matters. As we review those changes, we should examine them with a critical eye. We should ask the advocates of these proposals, as we should ask any advocates of disrupting present patterns, why their recommendations ought to be adopted.

We should ask why the government should give away patent rights which it holds. What gain is there to the public from granting certain people exclusive licenses to use government patents? What gain is there to the government itself? Does the proposal adequately protect the public and the government against misuse of exclusive licenses?

We should ask what benefits would accrue from separating the Patent Office from the Department of Commerce and making it independent. How is government policy, administration, or both improved by dividing large organizations into separate fiefdoms?

Mr. Chairman, I congratulate you for convening these hearings and for calling two outstanding witnesses this morning. I look forward to hearing testimony on H.R. 6933.

Mr. HORTON. I just want to say that I think it is appropriate that this subcommittee act on this matter. I am anxiously awaiting the testimony of the two witnesses that we have today.

Mr. BROOKS. I want to thank you very much, Mr. Horton.

Our first witness is the Secretary of Commerce, Philip Klutznick. He has served in that office since last year. His public service includes positions as Commissioner of the Federal Public Housing Authority, as a member of the U.S. delegation to the United Nations, as former president of B'nai B'rith, a close associate of the Ladies of Hadassah, and a former member of the World Jewish Congress.

He is accompanied by Dr. Jordan Baruch.

STATEMENT OF PHILIP M. KLUTZNICK, SECRETARY OF COMMERCE; ACCOMPANIED BY JORDAN J. BARUCH, ASSISTANT SECRETARY FOR SCIENCE AND TECHNOLOGY; AND ANDREW MANATOS, ASSISTANT SECRETARY OF COMMERCE

Mr. KLUTZNICK. Thank you, Mr. Chairman.

I am accompanied this morning by Dr. Jordan Baruch, Assistant Secretary for Production, Technology, and Innovation, who is directly responsible for the supervision of the Patent Office.

I regret that Sidney Diamond, the Commissioner, is abroad attending a meeting of the World Intellectual Properties Organization in which he participates, and therefore he cannot be with us this morning.

Mr. Chairman, I am grateful for the opportunity to appear before the subcommittee this morning and shall try to briefly introduce the subject.

We have a prepared statement which I ask leave to be filed. This goes into greater detail with respect to the questions that you have raised in your opening statement.

Mr. BROOKS. Without objection, it will be included in the record.

[See p. 63.]

Mr. KLUTZNICK. In light of the questions that you have referred to, Mr. Chairman, I would like to comment first on the question of reorganization; namely, the amendment that has been proferred and approved by the Judiciary Committee which would transfer the Patent and Trademark Office out of the Department of Commerce and give it independent status.

I want to assure the chairman of the committee that my approach to this problem is not at all bureaucratic nor in search of the maintenance of the piece of turf that may be involved in the Department of Commerce. The Department of Commerce is sufficiently complex and with sufficient bureaus and agencies so that the presence or lack of one or another would not disturb its Secretary if it was justified.

I am unalterably opposed, for reasons that I should like to delineate.

The basis on which the suggestion is made that the office should be removed from the Department of Commerce is, in my judgment, without merit. The charges are made that it does not get enough attention, that it does not get sufficient funds, that it is not a part of the Department of Commerce because it has a quasi-judicial

function. I would like to address myself briefly to all of those items now and more extensively in my statement.

First of all, with respect to its role in the Department, which is fundamental to me, the Patent and Trademark Office is a great asset in terms of creative technology, in terms of stimulating the very things that our society so very badly needs. I will be the first to say that, over a period of years, it has had some difficulties, but I must add that in the limited period of time in which I have been in the Department, steps have been taken to correct these deficiencies, which are continuing to this day. This is the first and best reason why the Patent and Trademark Office should not be withdrawn.

For example, the Commissioner is now part and parcel of our Commerce Council which meets weekly, and he participates not only in the making of general policy, he has direct access in those meetings to the Secretary, and he participates in all of the budget negotiations that take place between the various groups within the Department.

Second, on the day-to-day basis, the office is removed from the Secretary only by an Assistant Secretary—one who is concerned with science, technology, and innovation. We believe that that relationship is essential to the welfare of the country. We are engaged in finding new answers to our economic problems. We need all the strength that we can keep together in that connection.

Third, over a period of the last few years, the claim that the office has been underfinanced is, in a sense, belied by the fact that in at least a couple of those years, in 1976, the PTO Commissioner returned $684,000 of appropriated funds to the U.S. Treasury; in 1977, $1,431,000 in appropriated funds also were returned to the Treasury. In this year of stringency, when we have been trying to cut all costs, the one major increase proportionately in the whole galaxy of Department of Commerce institutions was the Patent and Trademark Office, with an increase of over $6 million.

The problem of performance is very important. There has been a shortage of examiners. The ability of that office to increase its examiners is determined by its ability to train those examiners and its ability at the same time to maintain the workload.

This year, it sought 180 examiners; it got 167, and it would have gotten 180 except for an error in checking back on the part of the Senate Appropriations Committee. It is not understaffed in any material sense.

I would call your attention to a report which was filed with the House in February of this year by the Surveys and Investigations staff of the House Appropriations Committee. I quote from it directly:

> The Investigations staff found the Patent and Trademark Office to be accomplishing its mission adequately; the quality of patents could be improved, but allegations to the effect that the system is falling apart and can only be revitalized by increased funding on a massive scale are without foundation.

I testify as a businessman that the attempt to solve problems of system in an organization like the PTO by throwing money at it may be the most foolish thing that can be done.

We are trying to find a way of improving the performance, by getting modern electronic methods. It is not easy to develop a

system electronically to search for patents. We are hopeful that it will not be many months until that does happen. In the meanwhile, I would cite for the importance of that office being within the complex of the Department of Commerce an incident that happened only last week.

We are engaged in extensive relationships with the People's Republic of China. A major delegation is visiting us this week. I called for a summary of what the Department is doing with respect to the People's Republic of China aside from our trade relations and aside from our shipping relations. I found, quite properly, that our Patent Office was working to help China develop a patent system and at the time we were talking there were several people from China working in our Patent Office to learn how to develop a patent system for China.

This is important to us because having an American-style patent system in China facilitates the business relationships between our community and China just as much as shipping does and just as much as our trade operation does. Our technical people—Dr. Baruch who is sitting here now has set up a management course in China. We all work together. Patents and trademarks are a creative aspect of our work.

Let me take a moment with respect to the other matters which the chairman has raised a question about. I will be quite brief.

I have been a bit disturbed by the tendency to consider some aspects of this bill as being big business oriented and some parts of it small business oriented. It is U.S. interest oriented. It is an effort, after many years, to develop a U.S. policy on the allocation of rights in patents resulting from federally-funded research and development. That means that instead of what the Defense Department does today or another department does tomorrow with respect to transferring title to patents, such transfer has to be regulated in the interests of the public. Today, a good part of patents created in the manner in which the chairman has indicated are in the Defense Department; title goes to the contractor.

We, in this bill, hope to pull back those patent rights which are not used and keep the ultimate title for redistribution to small and other businesses who may wish to use it. The bill, in effect, reduces the rights of the contractors instead of increasing them. We, of course, have tried in every way we can to facilitate unlocking technology of which there is just absolutely tremendous qualities that are tied up in patents and not being used, patents that were originated in the fashion that the chairman has indicated.

There is much more said about this in my statement. I know that our time is limited, so I will stop now and submit myself to such questions as I may be able to answer.

Mr. BROOKS. Thank you very much, Mr. Secretary.

I have a couple of questions for you and Mr. Baruch, and I would like to submit a few more.

Would an independent patent and trademark office improve the speed and efficiency by which patents are granted?

Mr. KLUTZNICK. Mr. Chairman, no reorganization without a plan ever improves efficiency, and the lack of adequate supervision, which we think we are supplying, reduces efficiency. We believe we

are developing a system and an operation that will, in short order, bring the Patent Office to a new height of performance.

Mr. BROOKS. Is it not likely that an independent patent office might well require larger administrative expenses for management and housekeeping than those under its present arrangement under the Commerce umbrella?

Mr. KLUTZNICK. I think there is no question about it. Today, there are central services provided in legislative work, in public affairs, in budgeting, which are a part of the Secretary's office and are used to supplement what otherwise would have to be a quite an extensive increase in the organization.

Mr. BROOKS. What recent studies or evidence do you have to show that exclusive license or title in the contractor fosters commercialization, or do you have any?

Mr. KLUTZNICK. I will let Dr. Baruch answer that. That is his specialty.

Mr. BROOKS. Dr. Baruch?

Mr. BARUCH. Mr. Chairman, there have been several studies on the utilization of patents. The most generally cited ones were done at the Harvard Business School; I do not have the citations at hand. They demonstrate that exclusive licenses, particularly in given fields, permit people to make the investments that get the commercialization done. This has been particularly shown in the area of petrochemicals, but it is true for many of the areas.

Mr. BROOKS. Do you have any indication as to what percentage of Government-held patents are ever commercialized?

Mr. BARUCH. Yes, we have figures on that. It is very small, and we have not had a Government marketing effort, and the Government has, as a matter of tradition in the past, only given nonexclusive licenses, which also limits the utilization.

Mr. BROOKS. Most agencies already have the authority to provide exclusive rights to contractors if they have any justification for it.

Mr. BARUCH. Yes, Mr. Chairman. What we are concerned with is, those agencies frequently provide title—the Defense Department, for example—to a contractor. What we are interested in is, seeing the contract commercialized but in his business, and making it possible to license the other applications of that patent much more widely to small and medium sized businesses to increase the utilization of the knowledge in that patent.

If somebody develops a new fuselage for an aircraft, he might quite well commercialize that in aircraft, but does it get commercialized in things like trailers, boat design, and those things that the aircraft company may not be engaged in? We would like to see it get used much more widely in industry to bring up the whole level of our industry.

Mr. BROOKS. So would I. But we do not think that giving an exclusive right—I have serious doubts that giving an exclusive right to one company or one contractor after you pay for the patent is going to make them commercialize it any more.

Mr. BARUCH. If he does not commercialize it, H.R. 6933 provides for us to step in and take that exclusive license away from him.

Mr. BROOKS. That is right, but it is a weak sister deal. They have 4½ years to determine the fields in which they are going to utilize the patents. And you talk about the march-in capability of the

Federal Government to come in and recoup the use of these patents for people. It is just so much talk. The Government does not use its march-in rights one in a million times.

How many times have they marched in and taken away a patent from my friend, Mr. Horton, because he was not making widgets the way they thought he ought to? How many times?

Mr. KLUTZNICK. Mr. Chairman, if I may intrude for a moment on this, I have had the practical experience of being a member of a board of a not-for-profit patent company, University Patents, Inc., of Illinois. We tried, for many years, with very good patents and patent rights that the university had, to get them commercialized through public or quasi-public sources. It just did not work. The company ultimately had to be sold.

The reason is that in connection with any patent, the greatest investment is the commercialization; it is not the creation in many cases. As a consequence, we have a lot of dead, locked up technology.

What we are proposing—and you are quite right that you have not seen it done—is this: If you give us the rights that are provided in this bill, we will limit the amount of exclusivity to that which is used. Four and a half years is not long in the life of a real technology.

Mr. BROOKS. I understand. But you do not know how many times we have marched in and taken over a patent from a corporation, Doctor?

Mr. BARUCH. No, I do not, sir.

Mr. BROOKS. I would like to know, out of all the patents we have had, how many the Government has gone and recouped. I think that is a paper tiger. I think we can forget that as a realistic protection for the public.

Mr. KLUTZNICK. May I suggest, Mr. Chairman, with all due respect, that the situation in many instances now is that the contractor actually gets title to the patent.

Mr. BROOKS. I understand what you are saying. You are proposing that they not be given the title. I hope that the bill will not give them the title. I feel sure that this bill can be amended to include that portion of your concept that they not give the title to anybody, that the Federal Government retain the title forever. We paid for it; we bought it; we keep it.

But I would like to go even one step further, and the bill does include that—give contractors the exclusive right to use the patented technology when they have some justification, when there is some public interest, when they are going to commercialize it, when they have foreign competition. This is in the bill. This makes sense, and Members of Congress would support it.

But why do they want, in addition to that opportunity to get an exclusive right, automatic, exclusive rights to the patents that we paid for with some $30 billion of Federal money? It is just unconscionable. I am going to try to cut that out, if my name is Jack Brooks.

Mr. BARUCH. Mr. Chairman, may I make one comment on that? To get march-in, when you have already given title to a contractor, is a very different task, even if the Government had never exercised that, and I do not know what the actual figures are.

Remember that when we give an exclusive license, it is a contract, and if the contractor fails to commercialize it is a breach of the contract and it requires none of the kind of rigamarole that march-in rights would require.

Mr. BROOKS. I understand, Doctor. I think the march-in rights that you have now are limited; they could be used with pressure; but they are almost never used now. Even under this bill, the march-in rights are pretty weak. It takes a pretty strong middle-level management man in the Government to say that the Government ought to take away a right of any kind from the big corporations; that is not easy to do. I think it is asking a whole lot for a GS-12 to take on General Electric. Top management does not do the original research on it; unless problems are located at the middle management levels and determined and defined, with the reasons and the justifications for taking action worked out, the decision never gets up to you.

I understand about march-ins and title. I do not ever want to give them the title; that is a mistake. I do not ever want to give away anything that I pay for; that is idiotic. Why would we give away the title to something we paid for with tax money? I cannot think of any reason. Let anyone who wants to use it.

We would be a lot better off to do as Senator Long—Russell Long—wants to do. He wants to put patents up for competitive bid and let anybody bid on them, and give small business an opportunity and give big business an opportunity.

Now, on nonprofit organizations, most of them never commercialize; they would not commercialize a new rattrap. They would keep the patents and try to sell them, get licenses, and get profits or royalties from them. But they do not manufacture very much that is of great use to the world, except patents. They want to sell them; they want to license them. They do not manufacture or commercialize very much of anything. So the experience you had was probably correct in that the nonprofit organization with which you were once associated probably did not manufacture anything. But if they could not license it to somebody for commercialization, it must not have been worth doing.

Mr. KLUTZNICK. Mr. Chairman, may I take a moment to discuss what happens in private life?

Mr. BROOKS. Surely.

Mr. KLUTZNICK. I am fully sympathetic to the notion that what you pay for you should have. But let me tell you what happens in contracting, not for Government, but, let us say, for a major company. There are contracts in which the contractor who gets paid reserves the right to such technology that he develops on that contract, on the simple theory that he is using his personnel who are specially trained. It is not an unusual thing for an owner or a developer to be perfectly prepared to let that go that way.

I am not arguing for the system, but what I am suggesting is that the bill strengthens your position; it does not weaken it, as against what has obtained up to now. That is what I think is involved.

Mr. BROOKS. I would ask unanimous consent to submit some additional questions, which I hope you can work out; I do not think

they are too tricky. Without objection, they will be included in the record at this point.

[Submissions to additional questions by Chairman Brooks follow:]

SUBMISSION TO ADDITIONAL QUESTIONS BY CHAIRMAN BROOKS

Question 1. "In the mid-1960s the Patent Office prepared a plan to have delivered a computerized system which would electronically prepare patents for printing and which would prepare a data base of approved patents which ultimately would be retrievable for patent searches.

"In order to implement the Patent Office's plan, a contract was awarded to International Computaprint Corporation (ICC) in April of 1970 for one year, with two one-year options at a cost of $10,053,766.71 per year.

"Although the plan called for the Patent Office both to assume operation of the work performed by the contractor, and to develop a retrievable system for patent searches, the Patent Office failed to do either. Instead, the Patent Office has contracted with ICC for over seven years and during this period has granted the contractor nine extensions on a noncompetitive, sole-source basis. Even today, the Patent Office continues to rely on the same contractor. Overall, the Patent Office has paid this contractor in excess of $32 million even though the data base, as required under the original contract, is incomplete. In addition, the Patent Office's ill-fated attempts to develop a retrieval system has cost millions.

"On three separate occasions, the Patent Office ostensibly sought to complete the data base contract work. Each time the effort was aborted.

"The bill we are considering requires the Patent Office to come up with a computerized system within six months. Is that a reasonable objective and can it be achieved in that time?"

Answer. As amended by the House Judiciary Committee, section 10(a) of H.R. 6933 requires the Commissioner of the Patent and Trademark Office to report to Congress, within six months of the effective date of the Act, a plan for a state of the art computerized data and retrieval system applicable to all aspects of the Office's work, especially patent searching, patent classification, and trademark searching. Also required are estimates of cost and time needed to implement.

Six months is not a reasonable objective and cannot be met. Thus, under section 10(b), the Commissioner would be obligated to provide progress reports to Congress every six months.

The objective is not reasonable because it is far from clear that the present state of the art is capable of producing a computerized patent search system which would be cost effective in comparison with the present human search system. The difficulties involved in a full text search system are substantial. In his Industrial Innovation Message to the Congress of October 31, 1979, the President indicated his support for a significant effort to study the development possibilities of such a search system. Until we are sure that such a system can be implemented on a cost-effective basis, and no such system has been offered us, it would be unreasonable to set a six months target date.

Question. "Why is H.R. 6933 used to establish procurement policy on patents and to preempt the authority of the Office of Federal Procurement Policy, which is charged by law to develop and recommend a uniform procurement system?"

Answer. H.R. 6933 does not establish procurement policy on patents and does not preempt the authority of the Office of Federal Procurement Policy.

The patent policy provisions of H.R. 6933 deal with "contract inventions", viz., "inventions made in the course of or under Federal contracts" (section 382(a)). A "contract" is defined by section 411(3) as "any Federal contract, cooperative agreement, or grant that provides for performance of research or development substantially funded by the Government."

H.R. 6933 says nothing about the procurement of federal research or development contracts. The bill deals with what is to be done with inventions which happen to be made in their course. Nevertheless, because patent policy is associated with procurement policy, the Office of Federal Procurement Policy is made responsible under section 390(a) for "direct[ing] the issuance of regulations to implement" these provisions of the bill. Moreover, representatives of the Office participated in the interagency committee which prepared patent policy options for the President. The President personally chose the option which forms the basis of the patent policy embodied in H.R. 6933.

Question. "H.R. 6933 sets no time limit within which a patent must be commercialized. Why not require the contractors to commercialize their patents, financed by government funds, within a specific number of years—five to ten years, for example—otherwise, the exclusive right (title or license) is automatically revoked?"

Answer. H.R. 6933 sets no time limit for commercialization because the appropriate time for commercialization is different in every case. Therefore, the bill permits the government to terminate a contractor's exclusive rights or mandate licensing of a contract invention in the event "the contractor has not taken and is not expected to take timely and effective action to achieve practical application of the invention" (section 387(a)(1)). This right may be exercised whenever appropriate. As I reported to you in my letter immediately following the hearings, NASA's experience is that it takes back title waived to contractors in a little more than one-fifth of its cases.

Question. "H.R. 6933 does not define 'small business,' 'nonprofit organization,' or 'field of use.' How would you propose to define these terms?"

Answer. Section 411(11) defines "small business" as "a small business concern, as defined in section 2 of Public Law 85-536 (15 U.S.C. 632) and implementing regulations of the Administrator of the Small Business Administration."

Section 411(8) defines "nonprofit organization" as "universities and other institutions of higher education or an organization of the type described in section 501(c)(3) of the Internal Revenue Code of 1954 (26 U.S.C. 501(c)) and exempt from taxation under section 501(a) of the Internal Revenue Code (26 U.S.C. 501(a)) or any nonprofit scientific or educational organization qualified under a State nonprofit organization statute."

"Field of use" is a term of business art relating to the area(s) of business or industry in which an invention may be used. Section 384(a) of the bill provides that "[e]ach field of use will be described with sufficient particularity to allow the Government to identify those fields of use not encompassed by the described field."

Question 5. "The Commission on Government Procurement recommended that a special board be set up to administer the government's march-in rights. Why does not H.R. 6933 contain such a provision?"

Answer. The Administration did not want to establish an expensive new bureaucracy to administer the proposed Act. Indeed, enactment of H.R. 6933's patent policy provisions should result in a significant reduction in the administrative burdens of both government and industry. Moreover, section 409 of the bill's patent policy provisions permit contracting agencies to transfer responsibility for contract inventions to other agencies. The Department of Commerce's Center for the Utilization of Federal Technology, to be operated on a self-sustaining basis, would be a transferee under the proposed Act.

Question 6. "Can you state the number of patents where either title or exclusive license was granted to contractors for inventions financed by government funds? Can you estimate the percentage of these patents which were commercialized between 1971 and 1980?"

Answer. No. However, I can state that, during the six year period from fiscal years 1970 to 1975, the government received 37,513 invention disclosures from contractors. The government obtained title to 30,089 of these inventions (82%). During this period, the government filed 4,657 U.S. patent applications on contractor inventions to which it held title. Contractors filed 5,073 U.S. patent applications. At the end of fiscal year 1975, there were 27,573 government-owned patents unexpired and available for licensing, 1,251 such patents were licensed.

Mr. BROOKS. I want to recognize Mr. Horton.

Mr. HORTON. Thank you, Mr. Chairman.

Mr. Secretary and Dr. Baruch, I was very impressed with your testimony, which I think you were very succinct in presenting.

Unfortunately, we have not had time in this committee to investigate the operations of the Patent Office fully. We are very fortunate in that the chairman of the full committee and chairman of the subcommittee, Mr. Brooks, also serves as the No. 2 Democrat on the Judiciary Committee, so is fully aware of the implications of this piece of legislation. The bill we have had referred to our committee contains a reorganization matter and a matter with regard to the exclusiveness of patent rights, both of which are appropriately before our committee.

The committee has been limited in the amount of time which could be devoted to this bill. The section relating to the creation of an independent Patent Office gives me some concern. I understand that every living former Patent Commissioner recently told a

Senate subcommittee that the Patent Office ought to be made independent.

Do you have any comment on that, or do you have any explanation of it?

A lot of people want to have independent offices because they think an independent office will solve all their problems. We created an independent Energy Office at one time too, and we found that it did not actually work; its affairs could be performed better under a new department, which we created.

But apparently there have been some problems, and you commented on that fully. I was very impressed with what you had to say with regard to reorganizing the Patent Office and some of the things that are going on now with regard to making it stronger and more able to handle the problems that it is up against.

But I am a little bit concerned about that testimony, and I would appreciate any comments you would like to make with regard to that.

Mr. KLUTZNICK. Mr. Horton, I shall choose my words carefully.

I was admitted to the bar many years ago. I have not been a practicing attorney for 40 or 41 years, but I did practice. Every Commissioner who has complained has complained on the theory that the Office has not been property operated and it has not had sufficient resources. I met with some of them. I believe in inviting in people to explain. They never did complain to me directly; they complained to everyone but me, and I asked them to come in.

I think there is considerable confusion in the minds of my fellow members of the bar. They now make an argument that the Office is a quasi-judicial office, as if the Department of Commerce does not have other such offices. We are handling now the largest steel dumping cases in history—a quasi-judicial function in our International Trade Administration.

The fact that it is a judicial operation—every department has that which is a quasi-judicial function—does not increase or reduce the performance. It merely requires getting the right kind of people to make decisions. They do not complain that we do not have that.

The second complaint is that there are not enough examiners. Well, the Congress has been generous, and in 2 years that they were complaining about they were unable to use the money.

Frankly, we are doing better on the budget for them than we are doing for any other agencies because we agree that the volume of work to be done has increased and the methodology ought to be improved.

There was a time when it took, I think, as many as 37 months to get a patent. They say the ideal is 18 months. We are down to 22 now, and I hope we will get to 18, and I do not know why we should not try to find even a better goal than that. If we can do some mechanizing of our search system, we might even be able to reduce that period of time.

I find it very difficult to understand the contention, other than that it is very natural for people to want to have a sense of, not ownership, but nearness to something that they were once related to. I do not know of anybody who does not want to be independent. But, as you have observed, Mr. Horton—and I have been in and out

of this Government since the first reorganization bills in 1933—the tendency is away from that. The complexities of the Government make it next to impossible for an independent agency to get heard in the places where it has to be heard sufficiently to get a job done.

There is a final thing. There may have been some criticism—and I do not like to repeat it—of some of my predecessors. I consider, in today's world, the Patent and Trademark Office as one of the important agencies of a Department of Commerce that has been given reorganized power to expand trade, to go into innovation, to go into technology. If anything, I criticize the Patent and Trademark Office for not having popularized inventiveness and creativity sufficiently.

I went to their opening earlier this year—Inventor's Day. I saw some delightful people. The world does not know, and it must know, that there are creative people in America because much of the creativity that a certain country to the east of us—west from here—uses is technology that was born here. Robotics, which are claimed to be the great achievement of Japan, were conceived here.

Mr. HORTON. I have a very special interest in patents because I represent a district in New York which contains most of Rochester, N.Y. We probably have, per capita, as many inventors as any community in the country.

We have people who started little industries like Eastman-Kodak and Xerox. They brought in a plan for xerography and turned the little company of Haloid into a very large one. We have our inventors' dinners annually, and we have honored some very outstanding people in our community. We have the University of Rochester and other educational institutions in our area that are very interested in patents and have provided over the years, much in the way of inventions. So I am very interested in patents.

I have seen small companies that started with practically nothing except an idea that have grown into medium sized and large companies because of their utilization of these inventions, patents, and so forth. So I am very much interested in what you have had to say with regard to the need for an independent agency.

As you have pointed out, and as I think I have pointed out too, independence for an agency is a double-edged sword. It has been my experience—and I have been on this committee for 18 years, during which time we have created independent agencies, and have taken independent agencies and put them into larger agencies—that it is a two-edged sword because people feel that when they are independent they can be recognized. But in some ways, they are like an orphan because nobody cares about them, and it is very hard for them to get into the larger councils. Sometimes if they are buried too deep, they do not get heard.

Is that a problem with regard to the Patent Office? You have taken a special interest, perhaps because of your unique interest in the problem, but maybe other Secretaries of Commerce have not or would not in the future. Is there a problem that the Patent Office is so deep in the Department that the Secretary, unless he takes a special interest, does not get involved in its problems?

Mr. KLUTZNICK. Mr. Horton, I am glad you reminded me that you are from Rochester. Joe Wilson was one of my dear friends.

Mr. HORTON. And a very good friend of mine.

Mr. KLUTZNICK. And Alan Wallace as well. So I know something about the patent story of Haloid.

Yes, it is always a problem in any large agency. But the Patent Office is not that far removed. It reports to an Assistant Secretary who reports directly. I have added to that by making the Commissioner a member of our Commerce Council.

Mr. HORTON. You indicated that in your testimony, I think it is a good step forward.

Mr. KLUTZNICK. It is very important to us.

Mr. HORTON. In your opinion would it be more help in solving some of these problems, if the Patent Office reported directly to the Secretary?

Mr. KLUTZNICK. As a practical matter, that is what happens. But there is a direct line of authority to Assistant Secretaries and Administrators. That is a question that OMB has been studying for some time and has a particular view on. The administration view is against adding any more Assistant Secretaries, if possible.

I find no difficulty in digging down to the fourth level in the operation of the Department, so I have never really given it any thought.

Mr. HORTON. I think it would be helpful if we took a look at that because that might be a part of the solution.

I have some other questions. I would like to ask one or two as quickly as possible because we will be going to the Rules Committee very shortly to testify on the revenue sharing bill.

I am interested in this "march-in" right. Just for my own edification, is that a distinct change with regard to what is now possible?

Mr. KLUTZNICK. Dr. Baruch will answer that.

Mr. BARUCH. Yes, Mr. Horton, it is a distinct change. March-in rights, as they now exist, are an effort to take away from somebody something they own—the title to a patent.

Under an exclusive license, there is a contractual relationship: You get an exclusive license under agreement to commercialize, and it is simply a contractual question of nonperformance rather than trying to take away something that is owned. We think that march-in rights will be very much easier to exercise, but we have no evidence to this. We just think they will because the Government has clearly performed before in areas where there has been contractual violation.

Mr. HORTON. I have one further question, Mr. Secretary.

In talking about the right that the Government now has with regard to patents and permitting contractors to keep those patent rights, is it a possibility that if we change policy too severely that would dry up the willingness of inventors to make their patents available to the Federal Government?

Mr. KLUTZNICK. I would be cautious about that element. As I have indicated, it is not only the Government that gets into that position now and then, it is even owners.

Mr. HORTON. But we should walk somewhat gingerly.

Mr. KLUTZNICK. That was our position.

Mr. HORTON. Thank you very much. I appreciate your testimony.

Mr. KLUTZNICK. Thank you.

Mr. BROOKS. Thank you, gentlemen.

We have a few questions for you. They are very short. I hope we can get them today.

Mr. KLUTZNICK. We will answer them immediately.

[See pp. 57-58.]

Mr. BROOKS. We are delighted to see that you have Andy Manatos working at the Department of Commerce. He is really a great help around here.

Mr. KLUTZNICK. Thank you, Mr. Chairman.

[Mr. Klutznick's prepared statement follows. See appendix for additional comments submitted for the record.]

PHILIP M. KLUTZNICK

SECRETARY OF COMMERCE

BEFORE THE SUBCOMMITTEE ON LEGISLATION AND NATIONAL SECURITY

COMMITTEE ON GOVERNMENT OPERATIONS

UNITED STATES HOUSE OF REPRESENTATIVES

ON H.R. 6933

SEPTEMBER 16, 1980

Mr. Chairman and Members of the Committee:

When President Carter initiated his domestic policy review of industrial innovation in May of 1978, many people questioned the need. Today, there is general recognition that our nation is under grave economic stress. We confront a troubled world in which our economic strength is an indispensable part of our nation's security. As you have said, Mr. Chairman, "[O]ur objective is to increase productivity in the United States and make ourselves more competitive with the technological inventiveness and ingenuity of foreign nations."

This objective, Mr. Chairman, is consistent with those stated by the President in his October 31, 1979, Message to the Congress on Industrial Innovation and, more recently, in his August 28th announcement of his economic program for the 1980s. We aim to increase the competitiveness of U.S. industry and to insure the long term economic future of our nation.

H.R. 6933, the bill I shall discuss with you today, embodies several of the measures proposed by the President in his industrial innovation message. We believe this bill to be a significant component of the Administration's economic program. As proposed by the President, H.R. 6933 would establish a system for the reexamination of issued patents, a new fee system for the Patent and Trademark Office (PTO), and a uniform government policy for the allocation of rights in federally-financed contractor inventions.

This is an important subject, and I wish to thank the Subcommittee for the opportunity to testify before you today and to express my views on two particularly vital aspects of H.R. 6933, as amended by the Committee on the Judiciary. I am accompanied by Dr. Jordan J. Baruch, the Assistant Secretary of Commerce for Productivity, Technology, and Innovation. I regret that PTO Commissioner Diamond is out of the country on official business and could not join us.

The Committee on the Judiciary has amended H.R. 6933 to make the PTO an independent, sub-cabinet agency. Mr. Chairman, in your dissent to the Judiciary Committee report on H.R. 6933 you have cogently put the case against independent agency status for the PTO. I would note also that your views are

supported by the Surveys and Investigations Staff of the House Appropriations Committee. In a report submitted in February of this year, the staff concluded that:

> "The Investigations Staff found the Patent and Trademark Office (PTO) to be accomplishing its mission adequately. The quality of patents could be improved, but allegations to the effect that the system is falling apart and can only be revitalized by increased funding on a massive scale are without foundation."

Those who advocate an independent PTO point to a long history of problems surrounding its operations. I do not deny that there have been problems in the internal administration of the PTO. I am somewhat astonished, however, that those who were directly in charge of managing the PTO would suggest that removal of Commerce Department supervision would improve matters. The fact is that the improvements in the PTO which are now underway are the direct result of Commerce Department initiative and supervision.

When Assistant Secretary Baruch took office in the Spring of 1977 he found that the PTO had no adequate system for developing accurate budgets. He found that the history of the PTO was replete with chronic reprogrammings which themselves

had generated considerable skepticism about its budget requests by the Office of Management and Budget and the Congress. For example, although it has been claimed that the PTO is chronically underfunded, in 1976 the PTO Commissioner returned $684,000 of appropriated funds to the U.S. Treasury. In 1977, $1,431,000 in appropriated funds also were returned to the Treasury.

Assistant Secretary Baruch initiated a top-to-bottom zero base analysis of all PTO operations jointly led by the Deputy Assistant Secretary for Science and Technology, the Department of Commerce's Director of Program Evaluation, and the Assistant Commissioner for Patents. In 1979, the Department's Office of Budget, Planning, and Evaluation and the PTO cooperated in designing and initiating a reorganization of the PTO to strengthen and integrate its financial and planning activities. The plan called for a new Assistant Commissioner for Finance and Planning to oversee and integrate the functions of budget preparation, financial analysis, and production planning. This position has been created and on August 25th of this year S. William Yost assumed that position.

While we have been strengthening the internal management capabilities of the PTO, we also have been adding to its financial resources. Under this Administration, the budget of

the PTO has increased at a faster rate than that of the Commerce Department as a whole. In the FY 1981 budget request, made at a time of severe budgetary constraint, we requested a $6,300,000 increase in the PTO appropriation.

The fee provisions of H.R. 6933 are a major Administration initiative to place the financing of the PTO on a more secure basis by revising its funding mechanism and by requiring that fees be set to recover a substantial portion of the PTO's operating expenses. I am personally committed to working within the Administration and with the Congress to insure that the PTO has the resources it needs. I am equally committed to insuring development within the PTO of an internal management capability to use effectively the resources it is provided.

Let me make two final points on this issue. One is philosophical; the other practical. First, I do not believe governmental efficiency is advanced by proliferating new agencies. Whatever the institutional arrangements, there is no substitute for good management. There are some who have led the PTO and who seek independence for it: yet, none has delineated a program to cure the present problems of the PTO that is as comprehensive as that of the Department of

Commerce. The tendency is against proliferation of independent agencies. They tend to duplicate services that are centrally available in a department, and their access to primary decision makers is more limited.

Second, the importance of the patent incentive to industrial innovation means that the affairs of the PTO, for example, its role in international negotiations, must be an integral part of our nation's effort to increase innovation and productivity. It would be a serious practical mistake to isolate the PTO from participation in the development of those policies, programs, and attendant budgets. For that reason, I have asked PTO Commissioner Diamond to join the Commerce Council -- a weekly meeting with me of senior Departmental officials.

The PTO has internal administrative problems. We are working successfully to solve them. The PTO is an integral part of the Commerce Department, which has been directed by President Carter to promote our non-agricultural trade and to fashion new programs and policies to stimulate greater productivity and innovation in industry. We welcome constructive, concrete proposals for further strengthening of the PTO. But we must deprecate in the strongest possible terms the notion that there are easy answers, that making the PTO

institutionally independent will accomplish anything beyond increasing the cost to the taxpayer, and diminishing its effectiveness in achieving its greater aims and relating to other agencies of government which share its goals. In seeking to solve acknowledged problems through agency independence there is a tendency to overlook a whole plethora of possibilities.

The fight over an independent PTO unfortunately has overshadowed the vital necessity of establishing a single, government-wide policy for the allocation of rights in federally-financed, contractor inventions. As you know, H.R. 6933 would establish a uniform, two-tier policy.

First, it would give title to small businesses and to nonprofit organizations "in recognition," as the President has said, "of their special place in our society." While I do not address this provision in my testimony, I would be pleased to respond to any questions concerning it.

Second, to all other businesses, which account for the expenditure of the overwhelming portion of federal research and development funds, H.R. 6933 would provide only for exclusive licenses in those specific fields of use the recipients agree to commercialize within four and one-half years after reporting

the invention. Today such contractors frequently receive absolute title to the patent. During the four and one-half year period, a contractor would be able to develop its invention to the point of determining its commercial interest. No exclusive license will be given if it is determined that the contractor's possession of the license "would create or maintain a situation inconsistent with the antitrust laws." A contractor's exclusive rights may be withdrawn for failure to achieve practical application of the invention or on antitrust grounds.

Two major advantages result from this provision. First, a simple, uniform policy would be established in place of the maze of differing policies, some statutory, others not, now governing. Current policies range from maintaining title within the government and simply publishing the patent to the Defense Department's general practice of giving patent rights to its contractors. The Defense Department, of course, accounts for about one-half of federally-financed R&D. The proposed policy would limit significantly the rights now given to defense contractors. Not only would they no longer receive absolute title, but their grant of exclusive field of use licenses would be subject to antitrust safeguards and to the requirement that the invention be commercialized if the contractor is to retain its exclusive rights.

Second, the Government actively would seek to promote the commercialization of the patents in fields of use not selected or pursued by the original contractor. These rights are now largely wasted, and they could be employed productively by small and mid-sized firms who today have either no incentive or no right to do so.

In sum, the patent policy provisions of H.R. 6933 aim to promote the development of new technologies to the point of commercial application while safeguarding the public interest. The provisions of this bill represent the culmination of a cooperative endeavor of the Departments of Commerce and Justice, many members of the Congress, and the private sector. In our view they are both equitable and important to improving the economic well-being of the nation.

Before concluding, Mr. Chairman, permit me to comment briefly on some of the concerns you expressed in your comments on H.R. 6933. Almost always, when an invention is made it is a long way in time, risk, and money from becoming a useful product or process. Entrepreneurs are reluctant to make the substantial investments required if an invention is to be developed into a commercial product or process without some assurance of protection. The possibility that cheap copies

will be made by those who have not borne the risks and endured the expenses of false starts tends to deter everyone from trying. H.R. 6933 provides the essential protection. In our economic system, without this, while the public may have a free right to use the patent, that right usually will be illusory because the patent most often will not be embodied in products or processes -- it will not be used.

Some have likened our proposed policy to using tax money to pay a contractor to build a road and then allowing the contactor to charge an additional toll to those who would travel the road.

Let me offer a different analogy. Imagine ourselves back in the early nineteenth century. The government hires a contractor to explore new territory. The contractor goes out and returns to tell us he crossed swampy, bandit-infested territory, crossed deserts and mountains, and, before turning back, saw from a distance a promising land. I submit it would be in the public interest to give the contractor an exclusive right to try -- to invest his own money to build a road across the swamp, desert, and mountains with the further right to collect a toll for a limited period of time should he succeed and be able to entice anyone to make the journey.

The right to build the road is only the right to risk one's own resources in the attempt. The toll is only a fair return on that investment, should the attempt succeed.

Today, even given a patent, the developmental effort is not cheap. In petrochemicals, for example, it ordinarily costs one hundred times the amount spent to make an invention to develop a product embodying the invention and make it available to the public.

The patent policy problem has defied solution for a generation. Unsuccessful efforts have been attempted at least since a study by the Department of Justice shortly after the end of World War II. The bill proposed by the President and now before you offers a solution to that problem. It will promote an increase in our nation's inventiveness and productivity. It will safeguard the public interest. I cannot say too strongly that H.R. 6933 -- save for the independent PTO provision -- is important.

My prepared remarks are at an end, Mr. Chairman. I will endeavor to answer any questions you may have.

Mr. BROOKS. Our second witness is Adm. Hyman Rickover, now approaching. He is renowned as father of the U.S. nuclear Navy. His present duty as Deputy Commander for Nuclear Power of the Naval Sea Systems Command is the latest in a series of assignments that began when he was commissioned as an ensign in the year of Our Lord, 1922. Admiral Rickover's dedication to a strong military that is run efficiently and economically is well known.

We welcome you, Admiral, and we are glad to have you. You are looking well.

STATEMENT OF ADM. HYMAN G. RICKOVER, DEPUTY COMMANDER FOR NUCLEAR POWER, NAVAL SEA SYSTEMS COMMAND; ACCOMPANIED BY THOMAS L. FOSTER, ASSOCIATE FOR FISCAL MATTERS, NUCLEAR POWER DIRECTORATE

Admiral RICKOVER. Mr. Chairman, you do not look much older than the first time I testified on the very same subject. So apparently you have not done a very good job because here you are, back again, fighting the same old battle, defending the taxpayers. [Laughter.]

I should think that Congress, being the governing body of the United States, would have prevented such scenes as this.

Mr. BROOKS. If I had had much help from downtown, we would have done that, but you know how the Defense Department is, Admiral; you have had differences with them, yourself, over the years.

Mr. HORTON. Admiral, from the minority side, we want to welcome you. I am always happy to see you before our committee. It is a great joy and pleasure to have you.

Admiral RICKOVER. Thank you, sir.

And how is your charming wife, Mr. Chairman?

Mr. BROOKS. She is fine. She was up early this morning—at 6:30—fixing breakfast for those children and for me.

Admiral RICKOVER. And what sort of patent has she developed for retaining her beauty?

Mr. BROOKS. She has done very well.

Admiral RICKOVER. You mean, you have done very well.

Mr. BROOKS. Well, that is true.

Admiral RICKOVER. Mr. Chairman and members, thank you for inviting me to testify on H.R. 6933 which proposes significant changes in patent policy, particularly for inventions developed with public funds.

Based on 40 years experience in technology and in dealing with various segments of American industry, I believe the bill would achieve exactly the opposite of what it purports. It would impede, not enhance, the development and dissemination of technology. It would hurt small business. It would inhibit competition. It would promote greater concentration of economic power in the hands of large corporations. It would be costly to the taxpayer.

I reject the notion that in addition to the experience, profits, and other benefits that arise from Government contracts, contractors should also be given monopoly rights to inventions that grow out of these contracts. Both technology and the public interest are best served when inventions paid for by the public are made available

to all citizens without any limitations on the use of these inventions.

The thrust of most of the present laws governing patent rights is that the Government should retain title to patents developed at public expense. Section 6 of the proposed bill entitled, Government Patent Policy Act of 1980, reverses this principle so that Government contractors would automatically take title to any inventions arising under their contracts with the Government. Federal agencies could retain title to inventions only in the limited circumstances prescribed by the bill.

The language of the bill obfuscates this end result. The bill creates separate and supposedly different rules for two broad groups of Government contractors, "small businesses and nonprofit organizations," and, "other contractors."

In the case of small businesses and nonprofit organizations, title to inventions under Government contracts would vest in the contractor from the outset. In the case of large contractors, the contractor would hold title to the invention for 4½ years and is guaranteed an exclusive license to the invention in whatever fields of use the contractor chooses for the remainder of the 17-year life of the patent.

The provision of the bill under which the Government recaptures from large contractors title to inventions after 4½ years is an exercise in semantics, a red herring by which the patent lobby seeks to disguise the true effect of the bill. For all practical purposes, the bill would give all contractors, both large and small, a 17-year monopoly to inventions developed under their contracts with the Government.

In private industry, the company that subcontracts for research and development work generally receives the patent rights to any inventions growing out of that work. Similarly, companies generally take title to the inventions of their employees on the basis that the patent rights belong to the one who pays the wages, that is, the one who pays the cost. In doing business with the Government, however, the patent lobby contends just the opposite—that patent rights should belong to the one who comes up with the idea, not the one who foots the bill.

In my opinion, this whole thing is an exercise in semantics by the patent lobby. They are the ones that push all this stuff. They are always figuring out things to keep them in business.

I know that many of you sitting on the platform are lawyers, but I think you have outgrown the bad effects that you were originally taught as lawyers. You know that the public rates lawyers just below streetcleaners. I think that is a pretty high rating, considering the fact that the streetcleaners actually do useful work and we could not get along without them.

Mr. HORTON. Congress was quoted as being at the bottom of that poll.

Admiral RICKOVER. No. You know I do not hesitate to tell my true feelings. I think we are blessed with better Representatives in this country than we deserve in view of the lack of care that most citizens take with regard to their Government. All they want are the benefits of Government. They do not want to put in the study and duties that are involved in being an active citizen. Someday

this will change because we are living off the great wealth we inherited in this country. The day is coming—it has already come in oil and it is coming in other minerals—not too far in the future when people are going to have to do some thinking about their country and their Government. Today this is just a huge cornucopia that anyone can come in and partake of.

We have to depend on Members of Congress who are politicians, which is fine in my opinion—the highest calling that any human being can engage in because he must deal with people; he must know what their wants are; and he must satisfy them. That takes a great deal of courage, a great deal of acumen, ability, and hard work. I am telling you what I really think of Congress.

I believe, if it were not so difficult and costly to run for office, we would have a better Congress because the Members who are presently in Congress would do one heck of a lot better job than they are able to do under the present circumstances.

This is not in my prepared statement, but I think you are good enough judges of human beings——

Mr. BROOKS. It is so seldom that people say kind things about Congress that we will give you a little extra time on that. [Laughter.]

Mr. HORTON. And you say it so well.

Admiral RICKOVER. Well, I assure you that I know how Congress works and the problems that Congressmen are up against all the time. I am very grateful for all that they have done for me because, as you know, without Congress I would not be here today. Now I will resume my prepared statement.

The patent interests have been working behind the scenes for many years to promote this idea. Twenty years ago they tried to get Congress to incorporate a giveaway patent policy in legislation that set up the National Aeronautics and Space Administration—NASA. Congress wisely insisted that the Government retain title to inventions in this new field, just as it did in setting up the Atomic Energy Commission.

I was one of the witnesses who testified on that NASA bill, and I believe I was partly responsible at that time for Congress retaining rights for the public. And it has been proved a wise decision by Congress.

Since that time, however, the patent lobby has continued to look for opportunities to reverse Government patent policy.

Why should they not? That is what they are getting paid for. They are being paid for this sort of stuff, and they have to justify to their employers that they are doing something. If you did away with the patent lobby, you would probably do away with the entire argument over patents.

In promoting the current bill, the patent interests contend that giving Government contractors patent rights to publicly funded inventions will somehow help turn around a perceived decline in technological innovation and productivity in this country. They currently claim that by retaining title to publicly funded inventions the Government stifles technology, that the results of the Government's large research and development expenditures are reflected in the approximately 25,000 patents the Government presently owns, that the public is not receiving the benefit of this

technology because only a small percentage of these patents are in use, and that the public will not receive the benefit from future research and development unless changes are made in the Government's patent policy.

They further contend that in the absence of patent protection, individuals and companies will not invest in the development and marketing of technology developed under Government contracts but that this problem could be resolved by giving contractors the exclusive rights to inventions developed at Government expense.

It is nonsense to think that our technological growth will suffer if contractors do not receive title to patents generated under Government contracts. The importance of patents is being greatly exaggerated by those who would benefit most from the proposed legislation; namely, patent lawyers and large corporations who, year after year, receive the lion's share of Government research and development expenditures.

Truly good ideas tend to be used even without a patent. Many of the worthwhile inventions would be discovered and adopted in the marketplace based on their merits. If one company did not generate the idea, another firm would because of the nature of the work being done.

Often, identical ideas crop up almost simultaneously in different companies. Further, many good ideas can be implemented or commercialized without special investment in R. & D. or new facilities, or they are sufficiently promising that companies will invest in them without patent protection. In these cases, the patent system, rather than promoting technology, simply determines whether someone is entitled to exact a royalty for use of the idea.

From what I have seen over many years, the majority of patents have little significance or merit. Some people file patents as status symbols; others simply misjudge the attractiveness of their ideas. The Patent Office, when in doubt, tends to patent questionable items on the assumption that if the patent becomes important the validity of the patent can be tested in court.

Recognizing this, many large corporations patent minor improvements or design features simply to discourage competitors or potential competitors, particularly small firms, from trying to enter the market. To challenge the validity of any of these patents can take hundreds of thousands of dollars and years of litigation. Although a high percentage of patents contested in court are ruled invalid, not many firms can afford the lengthy litigation that is required to challenge a patent.

If the Government were to give its contractors title to inventions developed at public expense, it would be discouraging competition and making it easier for large businesses to freeze out their smaller competitors. The essence of an industrial organization is the know-how developed by it, the trade secrets, and techniques. These are not patentable qualities; they are things which are inherent in the company, in its methods, in its management and trained employees, in the kind of machine tools it has, how it uses these tools, and so on.

It is often said that unless the Government gives away its patent rights, companies will refuse Government contracts. Government patent policy is rarely the dominant factor in company decisions to

68-957 O—80——6

accept or reject work. The tangible benefits of profits and technical knowhow from Government orders are far more valuable to most contractors than the speculative benefit of patent rights. For more than 30 years, I have been able to obtain the R. & D. and manufacturing work needed for the naval nuclear propulsion program without having to give away any Government patent rights. That is a pretty good example that patents are not as important as know-how; I have been involved in one of the leading technologies for 30 years, and I have never run into a case where patent ownership has bothered the contractors. That is one of the most important things I can tell you. Here is an advanced technology, and the issue has never come up.

Again, I repeat, this august meeting is concerned with the future financial welfare of a lot of patent attorneys—that is what you are really considering here.

Patents are generally incidental to Government research and development work, not its primary purpose, and therefore, are not really indicative of the technology developed.

When I place an R. & D. contract for a new design reactor, it is principally to work out the details of a design and to identify and resolve the problems of design, manufacture, and operation. If patentable inventions arise in the course of this work, they generally involve only small design features, not entirely new concepts.

Entirely new concepts are very rare in industry. Congress should not be overly concerned about the allegedly low usage rate of Government-owned patents. It is almost impossible to tell the extent to which these inventions are being used since the Government has no reason to search for or discourage patent infringement. Unlike private firms, the Government takes title to inventions to protect the public's rights to use the invention, not to discourage others from using it. And that is an important point. Government patents do not interfere with anyone using them; we just want to protect the public's right not to pay over and over again for the same thing.

In many areas today the Government is in the forefront of technological development. The public is financing development of entire new technologies. The U.S. Government spent $30 billion in fiscal year 1980 and intends to spend more than this amount in fiscal 1981 for research and development.

The majority of these Federal R. & D. dollars will go to large corporations. For example, in fiscal 1979, 61 percent of the Defense Department's research and development procurement budget went to only 19 companies. If the rights to publicly financed inventions are given to contractors, the Government itself will be promoting the concentration of economic power in the hands of a few large corporations. As conglomerates continue to take over more companies, the problem is exacerbated.

That is another thing that I am sure this committee is aware of but bears emphasizing, although it may be somewhat foreign to your main purpose. That is that nearly all of our industry is quickly and almost irrevocably being centered in a few large organizations. So you must be careful. Since you are involved with the entire welfare of the people, you must be careful that you do not, unknowingly, increase the potential of these corporations to domi-

nate this country even more than they are doing today. This country is founded on the basis of individual initiative, and that is pretty much going by the boards with some of the things that are happening.

Please do not let this committee become an agent for increasing that tendency.

Currently, the President and many Members of Congress are calling for the expenditure of unprecedented sums to develop new sources of energy and more efficient ways of using it. By far, the vast majority of these funds will be spent under contracts with large corporations.

Imagine the public furor that would ensue if, under the terms of this bill, a contractor, either large or small, developed at public expense a major breakthrough in energy technology. Is it proper for that company to be able to exercise monopoly rights over the distribution, use, and pricing of the results for 17 years—mind you, where the Government has paid for it? I think not. The rights to inventions developed at public expense should be vested in the Government and made available for use by any U.S. citizen; that is, by the people who have been taxed to pay for it, not the contractors who have profited by using the taxpayers' money.

The bill contains provisions that appear to be safeguards but are not. While creating an impression that the bill is not completely one-sided in favor of the contractors, they do nothing to protect the public.

The bill provides that if a contractor who holds title to a Government-financed invention fails to develop and promote it, or creates a situation inconsistent with the antitrust laws, the Government can force widespread licensing or revoke the contractor's patent or license. However, the Government has had essentially these same rights since 1963, but to my knowledge, it has never used them. There is no reason to expect Federal agencies to do so now, no matter what they tell you. All you have to do is look at the record and see whether they have or have not protected the public.

I know you are getting testimony from Government officials. I do not know what they say, but I am sure, if I know nearly all Government officials, they tell you what a wonderfully fine job they have done and are doing and will do in the future. Am I wrong in that, Mr. Chairman?

Mr. BROOKS. I do not think so.

Admiral RICKOVER. I am glad I am finding somebody who agrees with me.

If a Government agency ever decided to exercise these march-in rights and the patent holder contested the action, the contractor could stretch out litigation for years while continuing to benefit from the patent.

The provision under which the Government would share royalties and revenues with the contractor is also a facade. Since there are no firm standards for calculating the cost figures, the likelihood of manipulation and disputes is great. Moreover, there are ample loopholes for exemptions.

The bill requires that, prior to granting exclusive or partially exclusive licenses to patents the Government already owns, the agency must certify that the invention would not otherwise be used

and that the license will be limited to a particular field. The premise of this bill is that inventions are not used unless someone has monopoly rights. Therefore, if this bill becomes law, I am confident Government officials would make the required determination routinely and by so doing grant monopoly rights for most of the patents the Government now owns.

In my opinion, these so-called safeguards would be administratively cumbersome, ineffective, and are largely cosmetic. To comply with the provisions of this bill, Federal agencies would have to set up organizations, issue and implement regulations, promote patents, intervene when these plans are not carried out, negotiate agreements, and audit books and records. Even if agencies could carry out all these requirements, which I doubt, the fact remains that giving monopoly rights to publicly financed inventions would unduly enhance the position of large contractors.

This bill is but one of the many introduced in recent years designed to give contractors title or exclusive rights to the inventions developed under their Government contracts. The rationale for these bills has varied. In the past, the proponents have stressed the idea that companies will not accept Government contracts unless they are guaranteed exclusive patent rights. Today they contend that giving away patent rights to publicly financed inventions will stimulate technological innovation. If this bill is not enacted, I expect they will come up with another rationale.

In summary, I believe that inventions paid for by the Government should belong to the public and all citizens should have an equal opportunity to use these inventions. Contractors, particularly large ones, should not be able to get a 17-year monopoly on inventions they develop with tax dollars.

I believe the effects of Government patent policy are continually exaggerated and overemphasized by the patent lawyers and contractors who have a vested interest in the matter. Proposed changes regarding ownership and use of patents developed at Government expense are always presented under the banner of high sounding principles and purposes. Having observed this issue for many years, I am thoroughly convinced that almost all of such proposed changes are contrary to the best interests of the United States.

One of these days, I expect to see one of these lobbies quote the preamble to our Constitution—you know, all these fine-sounding words—for any bill that they propose because they want to demonstrate they are only motivated, not for their own good or for their company's good, but for the public weal.

The basic principle embodied in present laws is that the Government should have title to inventions developed with Government funds. The reasons the Government should take title to these inventions are primarily to preclude the establishment of a private monopoly for a publicly financed invention, to insure the public has equal access to these inventions, and to insure the Government is not subsequently barred from using the idea by someone else's patent. These are sound reasons that I fully support. The basic principle of title in Government should be modified, waived, or otherwise tampered with only for compelling reasons, and even

then with great care and in the most limited way needed to accomplish that purpose.

Mr. BROOKS. Admiral, I think you made an excellent statement. This is exactly what I have tried to convey to another committee that handled this legislation, and they whipped me all over that committee.

Admiral RICKOVER. Well, you are not eloquent enough. [Laughter.]

Mr. BROOKS. Next time we have a bill like that, I am going to let you come talk to them.

Admiral RICKOVER. I would be glad to.

Mr. BROOKS. But I am going to send them all a copy of your statement with the suggestion that they might profit from reading it. I know they will be interested. It will probably make them all just madder than heck, because they were mad at me, and I am sure they will be mad at you when they read this statement.

Admiral RICKOVER. Why are they mad at you for sticking up for the public? Is that not their duty? Are they not sworn to that?

Mr. BROOKS. That is not the view that they took. They interpret things differently sometimes. This will be a tough fight.

I have a couple of questions, and then Mr. Horton wants to make a statement, and we are going to go over to the Rules Committee. We have a hearing on revenue sharing—another one of my favorite subjects.

Why do you think it is nonsense to claim that our technological growth will suffer unless contractors receive title to patents developed by Government funds?

Admiral RICKOVER. We certainly have had pretty good growth in the atomic industry, and the law prevents us from giving title. That has not held us up. We are supposed to be the leaders in that. How would you account for that? That is one simple answer.

Mr. BROOKS. It is a good one; I like it.

Why do you think march-in rights are ineffective? You say they are cosmetic.

Admiral RICKOVER. That is another attempt, in my opinion, just to give the appearance of safeguards. Let me digress for a moment.

Take a company. Let us take a large conglomerate, for example. They are interested in making money, and they have an idea that getting title to publicly financed inventions is the way they are going to get it. But the people who work for them—the actual scientists and engineers—are not interested in patents; they are interested in doing a job, and they could care less about the patent part.

I do not know if I have answered your question.

Mr. BROOKS. That is close enough.

Admiral RICKOVER. Mr. Chairman, I could be more specific. The Government has essentially had these rights since 1963, but I know of no instance where the Government has ever exercised these rights—they do not do it.

Mr. BROOKS. That is right.

Why do you believe that inventions paid for by the Government should belong to the public? You have said that several times, and I have said that.

Admiral RICKOVER. When you go to a grocery store and buy groceries, the groceries belong to you; they no longer belong to the grocer; he no longer has a right to dictate how you use those groceries. Why, if I as a taxpayer assume the risk for an invention should the contractor hold the patent to it?

It is difficult to phrase this thing in a philosophical way because things of commonsense cannot be phrased philosophically, such as the Ten Commandments. How can I prove that it is correct to say, "Thou shalt not murder," or, "Obey your parents"? How can you prove it? There are some things that you have to recognize. The most significant things in life cannot be proved, and they cannot be explained. That, to me, is as simple an answer as I can give.

Mr. BROOKS. Mr. Horton, the gentleman from New York.

Mr. HORTON. Thank you, Mr. Chairman.

Admiral Rickover, it is always a great pleasure to have you before this subcommittee.

I want to say that normally I do not like to have witnesses read their statements. Usually they are too long, they do not grapple with the point, and they have a lot of surplusage. But this was an exception.

I have been in the Congress for 18 years, and I do not think I have ever seen a more succinct, to the point statement presented, at least in my presence, than this one. I want to congratulate you on your analysis of this problem and the manner in which you have presented it. For all practical purposes, you have given us in a nine-page statement a dissertation on patents and the Government which I would not think could be done. It is an excellent statement.

I think, probably, it was best summed up on page 5 which I underlined, where you said, "The tangible benefits of profits and technical know-how from Government orders are far more valuable to most contractors than the speculative benefits of patent rights." Then you go on to say, "For more than 30 years, I have been able to obtain the R. & D. and manufacturing work needed for the naval nuclear propulsion program without having to give away Government patent rights." That speaks volumes.

Admiral RICKOVER. Yes, sir, I have never had the leading companies in this country refuse my contracts because they knew they would develop know-how. The patents are not that valuable; it is the know-how.

Take Westinghouse and General Electric, particularly Westinghouse. It started in nuclear power with the naval program. They have gotten at lot of business out of it without obtaining any patent rights to technology paid for by the Government. They have become a leading supplier—and so has General Electric—of nuclear reactors. Both of them started through the naval program. This had nothing to do with it. I am giving you real examples.

The patent lobby can come up and give you all kinds of legal and theoretical arguments. I am not a great theorist. All I talk about is what is actually going on—what has happened and what is going on.

The nuclear industry in this country has been built up on the naval nuclear propulsion program. The naval program has always maintained all patent rights. Since they belong to the Government,

we have made it possible to have competition in that industry. That is the best way I can say it.

Mr. HORTON. Thank you very much.

Mr. BROOKS. Thank you, Mr. Horton.

I want to thank you again, Admiral. You have done your usual splendid job—maybe even better than your usual splendid job. I thought it was an excellent statement.

Admiral RICKOVER. May I say one thing and thank this committee? I would like to thank this committee for being so patient and listening to me because, as I said earlier, it is a great privilege to talk to people like all of you. I appreciate being invited to talk to someone who is interested in the welfare of the United States, not in making a lot of money for himself and his company.

Mr. BROOKS. Thank you very much, Admiral.

This concludes our hearing for today. We will resume the hearing on H.R. 6933 tomorrow morning at 9:30, in room 2247. Without objection, the hearing is recessed until that time.

[Whereupon, at 10:55 a.m., the subcommittee adjourned, to reconvene at 9:30 a.m., Wednesday, September 17, 1980.]

PATENT AND TRADEMARK LAW AMENDMENTS OF 1980

WEDNESDAY, SEPTEMBER 17, 1980

HOUSE OF REPRESENTATIVES,
LEGISLATION AND NATIONAL SECURITY SUBCOMMITTEE
OF THE COMMITTEE ON GOVERNMENT OPERATIONS,
Washington, D.C.

The subcommittee met, pursuant to notice, at 9:30 a.m., in room 2247, Rayburn House Office Building, Hon. Jack Brooks (chairman of the subcommittee) presiding.

Present: Representatives Jack Brooks, William S. Moorhead, Frank Horton, and Arlan Stangeland.

Also present: Subcommittee staff: Eugene F. Peters, staff director; Linda Shelton, office manager; Mary Alice Oliver, secretary; full committee: James E. Lewin, professional staff member; John M. Duncan, minority staff director; Stephen M. Daniels, minority professional staff, Committee on Government Operations; and Leslie L. Megyeri, from the General Accounting Office.

Mr. BROOKS. The subcommittee will come to order.

Today we will resume our hearings on H.R. 6933, to amend the patent and trademark laws.

This morning we will hear from Congressman John Dingell, distinguished chairman of the Subcommittee on Energy and Power of the House Committee on Interstate and Foreign Commerce; Dr. Daniel Boorstin, the Librarian of Congress; Ms. Karen Hastie Williams, Administrator for Federal Procurement Policy at OMB; and Mr. Ky Ewing, Deputy Assistant Attorney General in the Antitrust Division of the Justice Department.

Ms. Williams is not here at this point—she is going to be a little late—so we will start with Mr. Ewing who is here promptly.

Ky Ewing has been Deputy Assistant Attorney General in the Antitrust Division of the Justice Department since January of 1978. He is a native of Victoria, Tex. He received a B.A. from Baylor University and a law degree from Harvard. Before entering the Government, he was with a law firm here in Washington called Prather, Seeger, Doolittle, Farmer, and Ewing.

We are delighted to have you, Mr. Ewing. You may submit your statement, or proceed however you wish.

STATEMENT OF KY P. EWING, JR., DEPUTY ASSISTANT ATTORNEY GENERAL, ANTITRUST DIVISION, U.S. DEPARTMENT OF JUSTICE

Mr. EWING. Thank you, Mr. Chairman. It is a real pleasure to appear before your subcommittee.

I would appreciate being able to submit my statement for the record and simply summarize it.

Mr. BROOKS. Without objection, it will be included in the record. [See p. 95.]

Mr. EWING. Mr. Chairman, the Justice Department's interest in the area of Government patent policy has been very active since the middle of World War II. Indeed, Mr. Chairman, I suppose that means that we slightly antedate even the chairman's interest in this subject.

In light of yesterday's hearings with Admiral Rickover, I would also note that the Justice Department's antitrust responsibilities, which were centered in Justice by the Sherman Act of 1890, mean that we have been at the game of watching competition for 90 years, slightly even antedating Admiral Rickover's institutional interest in this area.

So we come to the issues confronting this subcommittee with a long institutional history of taking positions and trying to work toward a situation with regard to Government patent policy that will protect the consumer welfare of the country, which, after all, is the ultimate aim of our antitrust laws, and, above all, protect competition.

Mr. BROOKS. Pardon me, Mr. Ewing.

You have been working in the Antitrust Division all these 2½ years that you have been in the Justice Department?

Mr. EWING. Yes, sir. I have been the Deputy Chief of the Antitrust Division for this period of time.

It is from that perspective that I am here to advocate—if you will—the adoption of section 6 of H.R. 6933.

The Antitrust Division, Mr. Chairman, undertook a little over 2½ years ago its own examination—really a reexamination—of its historic positions on Government patent policy. This was independent of, but parallel to, the administration's domestic policy review of industrial innovation.

As part of our study, we tried to determine whether our historic position, which was in favor of the Government keeping title, was still valid and still viable in light of the needs of the current day.

It was our conclusion, Mr. Chairman, that we should change our position and adopt a slightly more sophisticated answer to the questions confronting us.

The chairman yesterday said that the Government buys the patents, the Government pays for the patents, and the Government ought to keep the patents. We can agree with the chairman up to that point. We think the issue is, once the Government keeps it, where does the Government keep it? Does it keep it on a shelf where it does no good for anyone? Or are we going to adopt policies—sensible policies—with adequate tools to the bureaucrats that have to administer them, to get the patents off the shelves and in use in the marketplaces and the manufacturing plants of this country?

It is to the end of commercialization that we have proposed a different kind of patent bill than has ever before been submitted to the Congress by any administration. I would like to try to explain that a little in detail.

We think there are five different policies that have to be reconciled. The first is the public's equity interest in having paid for something.

The second goal is commercialization under the most competitive circumstances possible of inventions resulting from Federal funding. Mind you, the public does not really benefit from an invention that it owns sitting on a shelf. That is just a piece of paper with perhaps a blue ribbon around it. Where the public benefits is from getting merchandise in the marketplace that reflects the inventive idea—the innovation—inherent in that patent.

A third goal is encouragement of private contractors to exert their best efforts, as well as participate as widely as possible, in bidding on Government-sponsored research and development projects. We want the widest number of competitors possible getting into the Government R. & D. game.

A fourth goal is the full disclosure to the sponsoring Federal agency of all contractor inventions resulting from Government funding.

Finally, we need to eliminate as many as possible of the unnecessary administrative costs incurred both by the Government and its contractors as a consequence of a Federal agency's management of patent rights.

What we believe we have done, Mr. Chairman, is to craft in this bill a new system which will maximize the achievement of all of those goals. I would emphasize to you that your historic position and our historic position, which has looked to the equity of the taxpayer in the invention, is, we believe, protected by this bill and protected in several different ways.

The first protection is that we believe the bill will achieve greater commercialization, and only through commercialization can the taxpayer truly reap the benefit of the inventive idea that the taxpayer paid for.

Mr. HORTON. You said that, but can you explain that to us?

Mr. EWING. Yes, sir, I can, I believe.

Right now, over 90 percent of the patents resulting from Government R. & D. are simply shelved. They are shelved either on the Government's shelves, or they are shelved on the contractor's shelves. Very few of them are commercialized.

This is a function of at least two things. First, it takes a lot of money to go from a patent to a product in the marketplace.

Mr. HORTON. We understand that.

Mr. EWING. That is the key element, Mr. Chairman.

Mr. BROOKS. What are you going to do? Give them the money? Everybody knows that if you have enough money you can develop the "whatsits." If they give you the specifications and the patent, you can build it, you can develop it, you can sell it. We have been all through that. Ninety percent of those patents are sitting on those shelves because nobody, as you said, wants to spend all the money to develop them.

Yes, we all agree. Now, what else? We have been through that. That is pretty elementary.

Mr. EWING. Mr. Chairman, I suggest to you that you, too, support the patent system for the reason that the patent system is at times necessary to enable a contractor, or anybody else, to exclude

others for a temporary time in order to reap back the fruits of the kind of investment that goes into commercializing something. And that is exactly what we have here.

Mr. HORTON. We understand that. But the concern I have is, how are you going to commercialize? If we have not adequately commercialized patents in the past, how are we going to do it now? What is the bill's approach? Do not give us the history of patents, and all sorts of other things. Just tell us how this bill is going to commercialize, or make it easier to commercialize, or make it certain that there is going to be better commercialization of those patent's that are owned by the Federal Government.

Mr. EWING. The bill requires disclosure of the invention before any exclusive rights vest in the contractor. It requires the contractor to focus on——

Mr. HORTON. Are you going to vest it in the contractor?

Mr. EWING. An exclusive right gets vested only after the invention is disclosed, only after the contractor has had to focus on commercialization, only after the contractor has had to tell the agency in what fields it will promise to commercialize.

Mr. HORTON. This is one that is owned by the Federal Government?

Mr. EWING. Yes, sir.

Mr. BROOKS. After four and a half years, they will then decide what fields they are going to be in.

I will just tell you, your drafting down there leaves something to be desired. I do not blame you personally. I think it is going to be a cold day in hell before we give patent technology from 30 billion dollars' worth of research and development activities to the people who received Government money to do that work—give them an automatic right to the patents. It is just disgraceful.

You sit here—and so did the other administration people, and I am sure we will get some more of it from the others we have coming here today—and say you want to develop commercialization, and you want to give patent rights to those people who will use the patents. Everybody would love to see that done. We are perfectly willing to do that. The Judiciary Committee was perfectly willing to do that. But they were not willing to refrain from giving an automatic, exclusive right. There were no protections for the public whatsoever, except that contractors had four and a half years to decide in which fields they wanted to commercialize the patent. Most of the patents, everybody knows, are little, nitpicking, peripheral operations on practices and developments. Most of them are not going to be big, profitable commercial enterprises.

We included nonprofit organizations. If you are going to be such a good draftsman down there, why do you not look at the nonprofit organizations? Do most of those nonprofit organizations manufacture anything at all? They are think tanks—research organizations. If you give them all the patents in the world, they will probably manufacture nothing. All they will do is license them to somebody they think will, as you say, put the money together and build the deal.

The Federal Government can give these people exclusive rights if they need it under this bill, by an amendment, or by the original

bill, without giving them that automatic exclusive right which I, personally, feel is just inexcusable.

I just cannot understand why anybody in the Justice Department would think that it was necessary to give away 30 billion dollars' worth of research so somebody will use it. If it is any good, as Admiral Rickover said—and he has more experience than you and me put together in this field—it was not done in nuclear development and there has been nothing but success in that area.

General Electric and Westinghouse have gone into the nuclear area; they are not amateurs at making money; they both have done very well; they furnish nuclear reactor equipment and facilities throughout the world. They have used Government funds for research and development and have used the technology commercially without having automatic patent rights. It has worked pretty well in that area, and it would work in others. It is not necessary to give away 30 billion dollars' worth of patents. I just cannot understand that concept being defended by anybody. And you really think that is what we need to do? You, from Victoria, would want to do that? You are the only one in Victoria, Tex., who ever wanted to give away anything. [Laughter.]

Mr. EWING. Mr. Chairman, as a fellow Texan, I do not give away anything unless I get something in return. I think I am getting something in return here. Let me try to explain that. I do not believe this is a giveaway. Second, I do not think—contrary to the chairman, and with all respect to the chairman—it is absolutely automatic. There are some significant safeguards here.

The first safeguard is that the fellow that gets this exclusive has to promise to commercialize it. If he does not, it is taken right back to the Federal Government.

Mr. BROOKS. And you know the Government is real mean about that. In four and a half years you can kill something. That is how long before they have to prove it, is it not?

Mr. EWING. They have four and a half years' worth of holding title, during which they cannot commercialize. If they ever want to commercialize, they have got to come in and say, "OK; here is the disclosure," and go through this safeguard "second-look" provision here. So the only function of the four and a half years is really as a holding of title. It is a technical thing.

Mr. BROOKS. To freeze anybody else out. You eliminate your competitors; you perfect your own utilization; you develop your commercial idea. It is a goldmine.

If I were a patent lawyer in Washington, or if I were a manufacturer with a credit line of a couple of hundred million dollars, who wanted to go into some area, I would like to have this deal. I would just go in and pick the patents—pick them free. Wherever you think there is one you can get, just go and scoop it up, because it is a gift, and the Government spends the money for the initial research. That is what is unconscionable.

Mr. EWING. Mr. Chairman, the Government is saying to the contractor, "If you promise to commercialize, and if you pass the antitrust incipiency standards safeguard we have built into the 'second look,' then we will allow you the exclusive license, provided that you really do the commercialization; if you don't, we have a march-in right."

Mr. BROOKS. In 6 years. You have 6 years to do it—right?

Mr. EWING. You have the remaining period of time in the exclusive from the day that you disclose to the Government and give the Government the 90-day right for a second look.

Mr. BROOKS. You have 6 years?

Mr. EWING. No, sir. You have the remaining life of the patent.

Mr. BROOKS. Of the 17 years to develop it? I thought you had 6 years—that you had to show some little evidence—you had to move.

Mr. EWING. Let us say that you come in and disclose your invention in year one; you do not wait the four and a half years; you know what you want to commercialize; you designate your field; you then have the remainder of the 17-year patent term as an exclusive right, provided that you commercialize, and further provided that, after the fact, you do not create a situation or maintain a situation inconsistent with our antitrust laws.

These march-in provisions are adequate even though, I will admit to you, sir—march-in has very seldom, if ever, been used in the past.

Mr. BROOKS. I would just be scared to death of a march-in. You know, they would not march in—I cannot imagine their doing that.

Mr. EWING. Mr. Chairman, the march-in provisions that are presently in the law do not have an antitrust standard in them. If you look at the march-in provisions in ASPR, the Federal Procurement Regulations, and the NASA regulations, they do not have this competition-based standard in them.

Mr. BROOKS. OK. I give up on march-in. A march-in is just a dream.

Mr. EWING. Mr. Chairman, let me explain. Once you have the antitrust standard in your march-in provisions, you present competitors with a peg to hang their hats on. You will have more complaints and more chance of Government officials acting responsibly and marching in. So we are dealing with a different march-in provision in this bill than we have historically had.

Mr. BROOKS. I understand. But march-in is certainly a terrible remedy. It must scare them to death when they think of the Government marching in on them, taking one of those patents away from them after they have had it so long.

Mr. EWING. Mr. Chairman, I was trying to answer the question of what we get for this for the taxpayers.

Mr. HORTON. The first question was, how does this bill increase commercialization? I have not heard an answer yet. We got off on these standards.

Mr. EWING. I will be glad to try to answer that, sir.

To get the patent commercialized, whether the patent is owned by the Federal Government, or whether the patent is owned by somebody who created it himself without any Government money, you have to go through a period of development——

Mr. HORTON. No, no, no. Do not give me a history. I am trying to find out how, in this bill, you are going to make it possible to better achieve the goal of commercialization. Just tell me that. We have three or four witnesses; the House has to go into session at 10 o'clock; we do not have the time for a complete history.

Mr. EWING. The only way you are going to get commercialization is to find people who are willing to spend that development money. They are only going to be willing to spend that development money if they have the right to an exclusive. That is what we are giving them in this bill. That is why this thing will work in terms of commercialization.

Mr. HORTON. How do you give them an exclusive license in the bill?

Mr. EWING. The bill says they will get an exclusive in the field of use they will promise to commercialize, provided that the grant of that exclusive passes the "second look." The "second look" is for national security and to make certain that the vesting of that exclusive will not create a situation inconsistent with the antitrust laws.

In economic terms, what we are saying is that we will give them some right to exclude, just like any patent does, and allow some slight supercompetitive profit.

But what the antitrust provision—safeguard provision—avoids is the excessive supercompetitive profit. In short, there is enough incentive given by this exclusive to get the fellow to expend the money for the development effort. The antitrust provision safeguards against the contractor reaping exhorbitant anticompetitive profits or supercompetitive profits down the line. It is a fine line, and it is something that has to be adjusted. It is not a situation that we can come at simply with philosophical views on either side.

I would like to make one more point. Today we have a situation where we have a lot of different laws. We have even more regulations. We have 26 different patent policies in this town. And while we have laws that say Government should retain title, we have a fact out here; the fact is that 92 percent of all of our R. & D. money is going to larger businesses. The fact is that most of them are getting it, in terms of dollars, from DOD and the agencies with a very active waiver policy. That means the contractors right now, at the beginning, before the invention is disclosed, have the rights to inventions automatically waived to them without any antitrust protective provisions and without any march-in provisions that have an antitrust clause built into them that will allow competitors to come in and complain.

So, what I am saying, from the Antitrust Division's point of view, is that this bill will give us far more protection against the very concerns you have than we have under the present system which, while philosophically saying that title should remain in the Government, as a practical matter is automatically and quite blindly in most cases waiving rights over to contractors, waiving them over to contractors without any effort being focused to cause the contractors to look at commercialization and to make any promises about commercialization.

So, what we have to consider, it seems to me, is what we really want to achieve, not just philosophically but in a real world situation. And the Antitrust Division believes that we will achieve something better through section 6 of H.R. 6933 than we are achieving today.

Mr. BROOKS. I have one further question for you. Would you explain what is meant by the term, "field of use," and provide us

with a definition that would govern the Government's interpretation of this phrase, as used in the bill which you espouse?

Mr. EWING. I will attempt to do so, sir.

Would you refer to page 5 of my written testimony? I have attempted in a footnote to give you some idea of what we mean by "field of use."

It is a term of art that has been around for a long time in the patent area, and we mean in this bill exactly what the cases on "field of use" mean by it. I have given an example in the footnote on page 5.

Mr. BROOKS. It would be subject to interpretation?

Mr. EWING. Yes, sir; it would be.

Mr. BROOKS. Are there any further questions?

Mr. HORTON. Yes, Mr. Chairman.

How does this bill protect the Government's interest in patents secured as a result of Government-funded research? Does the Government receive royalties from product sales?

Mr. EWING. There are several different ways the bill protects the Government's interest. One I have mentioned—commercialization. I will not redo that.

Second, the Government has a royalty-free right to exercise it for the Government's own uses and for State and local government uses.

Finally, there are recoupment provisions specified in the bill.

Mr. HORTON. Like recouping the cost, you mean?

Mr. EWING. Yes, sir.

Mr. HORTON. You do not need to refer to it. But it does provide for recoupment of costs?

Mr. EWING. Yes, sir.

Mr. HORTON. Is that recoupment for the total costs?

Mr. EWING. Yes, sir.

Mr. HORTON. Does it retain the right to reassign patent rights to a higher bidder if there is convincing evidence that the commercialization could be accomplished better by another business?

Mr. EWING. If the contractor does not adequately commercialize—and there are some definitions of what that is in the bill—then the Government can march in and either itself grant a license to another competitor or force the contractor to grant a license.

Mr. HORTON. Who is going to oversee this?

Mr. EWING. The oversight is in the agency doing the contracting, subject, obviously, to the general policies of the Office of Federal Procurement.

Mr. HORTON. That is all, Mr. Chairman.

Mr. BROOKS. Thank you very much, Mr. Horton.

Mr. Moorhead, do you have any comments?

Mr. MOORHEAD. Mr. Chairman, I have just one question.

Does the Justice Department have any recommendations to this subcommittee about an independent patent office, or not?

Mr. EWING. No, sir, we do not. I totally defer to Secretary Klutznick on that issue. I am here solely for the Justice Department on section 6 of the bill.

Mr. MOORHEAD. Thank you, Mr. Chairman.

Mr. BROOKS. Mr. Stangeland?

Mr. STANGELAND. Thank you, Mr. Chairman.

If the contractor finds a new invention with Government research money and then decides to patent and commercialize it, does he reimburse the Government for the research money that he uses to develop this?

Mr. EWING. There is in this bill a provision called a recoupment provision by which the Government would recoup the cost under regulations to be laid down by the Office of Federal Procurement.

Mr. STANGELAND. I have no further questions, Mr. Chairman.

Mr. HORTON. Mr. Chairman, I have one other question.

Mr. BROOKS. Mr. Horton?

Mr. HORTON. Does the Justice Department get into this question of whether or not companies would refuse Government contracts if the Government retains the patent rights?

Mr. EWING. Yes, sir, we have thought about it. There are anecdotal pieces of evidence that there are contractors who today refuse to get into Government R. & D. because they possess background patents and knowhow that they feel would be disclosed to the world in a situation where the Government would keep title.

The extent of the problem is hard for me to define. I know that there are eminent engineering firms, small businesses—Wainschell Engineering out here in Maryland being one—which refuse to engage in Government R. & D. work because of the problem with Government patent policies. How extensive that is, Mr. Horton, I do not know.

Mr. HORTON. That is quite counter to what Admiral Rickover said yesterday. This was the thing that just stood out in his testimony. I will quote him. He did not put it in the record; he actually read this statement; so he said it, and I commented on it, and he elaborated on it later. He said, "It is often said that unless the Government gives away its patent rights, companies will refuse Government contracts. Government patent policy is rarely the dominant factor in company decisions to accept or reject work. The tangible benefits of profits and technical know-how from Government orders are far more valuable to most contractors than the speculative benefits of patent rights." Then he goes on to say, "For more than 30 years I have been able to obtain R. & D. and manufacturing work needed for the Naval Nuclear Propulsion Program without having to give away Government patent rights." That is pretty potent testimony.

Mr. EWING. Yes, sir, it is pretty potent testimony from Admiral Rickover, whom I greatly respect. I was in the room yesterday to hear Admiral Rickover, myself.

I do think that we all must realize that the admiral is operating in a particular field. It is the field of nuclear propulsion. It is a very different kind of field from the other energy fields in which DOE, for example, is having to spend Government R. & D. money.

Mr. HORTON. They are all different fields.

Mr. EWING. They are all different fields, but DOE is trying to attract small businesses quite unlike the GE's and Westinghouses of this world into the solar area. The photovoltaic industry is an industry of very small businesses, more like Wainschell Engineering than a GE or Westinghouse.

As the spectrum of Government-funded R. & D. moves away from what I call the armaments world or the nuclear propulsion

world over into the energy area, as it clearly is going to in the next two decades, where the products we hope to get out of R. & D. are not going into submarines but into inventions in people's houses and people's cars—I think you will find we are dealing with a different type of Government contractor than the admiral has had to face. You are going to have to attract a different type of contractor if you are going to get the job done.

Mr. HORTON. I am not going to argue with you about it.

Mr. EWING. We are concerned that the admiral's experience will not translate itself in the next two decades into what we need in other areas. While I, of course, listened carefully to his testimony, I do not think it is dispositive on the situation.

Mr. BROOKS. Thank you very much. We appreciate your coming down. It is a pleasure to see you.

Mr. EWING. Thank you, sir, for allowing me to be here.

[Mr. Ewing's prepared statement follows:]

U.S. Department of Justice

Washington, D.C. 20530

Testimony of

KY P. EWING, JR.
Deputy Assistant Attorney General
Antitrust Division

Mr. Chairman and Members of the Subcommittee:

I appreciate the opportunity to testify today on behalf of the Department of Justice in support of Section 6 of H.R. 6933, the Administration's omnibus patent bill. Section 6 would amend title 35 of the United States Code by adding a new Chapter 38, entitled "Government Patent Policy Act of 1980." In our judgment, this bill provides a sound approach for achieving the various public interest goals that must be resolved in allocating patent rights in federally sponsored research and development activities.

The Department's interest in government patent policy legislation flows from our antitrust enforcement mission to make competition work in our economy. A primary objective of that mission is to foster innovation incentives, for innovation is as vital an element in the competitive process as the competitive process is in the success of this nation's economy. Measures which will encourage greater innovation will benefit consumers by creating additional competition in the introduction of new products and services in the marketplace.

Prior to introduction of H.R. 6933, the Department of Justice completed a thorough analysis of the policies being employed by the federal agencies in allocating patent rights resulting from government funded research. Our conclusion was that the current system is inadequate in that it does not properly benefit the public for its investment in this

typically made at the time of contracting, when it is difficult if not impossible to assess adequately whether the contractor could or would commercialize any resulting inventions. With respect to inventions in which the agency retains title, the agency is often unable to commercialize adequately, if at all. As a result, many inventions are not commercialized and in effect are "shelved" by the contractors or by the agencies. We do not need a government patent policy that shelves inventions; we need one that will place those inventions on the shelves of retail stores or in use in our manufacturing plants and processes, where consumers can benefit from them.

H.R. 6933 is a reaction to and an attempt to solve these problems. It focuses on assuring that federally funded inventions are commercialized while at the same time assuring that the public is protected against anticompetitive and other abusive situations, including the reaping of excessive supracompetitive profits by contractors. It represents the first time that the various federal agencies have been able to reach a consensus on government patent policy. It also represents the first time that an Administration has presented a bill providing for a uniform goverment patent policy that governs the actions of all of its agencies.

H.R. 6933 is a product of the Department's re-examination in this area. We had traditionally taken the position that the public interest in federally funded inventions was adequately

advanced by the government retaining title in the invention. However, we now realize that this approach is not sufficient, that a more sophisticated approach is necessary.

Our re-examination isolated five distinct goals that government patent policy must accommodate and we set out to design a government patent policy that furthered them. The five goals are: (1) adequate protection of the public's equitable interest in inventions that result from government funding; (2) the commercialization, under the most competitive circumstances possible, of inventions resulting from federal funding; (3) encouragement of private contractors to exert their best efforts, as well as participate as widely as possible, in government sponsored research and development programs; (4) full disclosure to the sponsoring federal agency of all contractor inventions resulting from government funding; and (5) the elimination of any unnecessary administrative costs incurred by the government or its contractors as a consequence of a federal agency's management of patent rights.

H.R. 6933 is designed to maximize all of these goals. Especially important in this regard is the bill's promotion of the patent policy goal of commercialization of federal contractor inventions. The bill would increase commercialization, and thereby increase productivity and spur innovation, by ordinarily granting large businesses exclusive licenses in all fields of use in which these firms indicate an intent to

commercialize. 1/ This exclusive grant is an important incentive to commercialization. Costs relating to commercialization often represent a substantial portion of the total cost of product development. To encourage commercialization of inventions despite these costs, as well as to encourage research, the patent system grants exclusivity to inventors. Exclusivity is important because, without it, private contractors are often unwilling to undertake the cost and risk of commercialization. If the invention is commercially unsuccessful, the contractor would lose its investment; if the invention is commercially successful, the contractors' competitors would be free to utilize the now commercially proven invention. Because of this, an invention available for all to commercialize is often commercialized by none.

The bill also promotes commercialization by allowing the government to retain all rights in fields of use other than those selected by the contractor. This enables the government to commercialize the inventions through licensing or otherwise.

1/ The phrase "fields of use" reflects a current practice. Frequently, patentees license a firm to use an invention but only in a particular "field of use." For example, a chemical manufacturer may discover a new chemical which can be used both as a fertilizer and a paint thinner. The patentee may license a firm with an extensive fertilizer distribution system to manufacture and sell the product as a fertilizer, and license a paint manufacturer to manufacture and sell the product for use in paints. In this manner, licenses would be given in two "fields of use."

By increasing commercialization, H.R. 6933 will also help achieve a second goal of government patent policy, the protection of the public's equitable interest in federally funded inventions. The public invests large sums in government sponsored research. The most direct and important benefit that it can derive from this investment is new and better products. The taxpayers gain little, if anything at all, from their investment when inventions are not commercialized.

H.R. 6933 also protects the public's equitable interest in the invention by minimizing supra competitive prices charged by a contractor who commercializes the invention. Indeed, it would be unacceptable to adopt legislation that did not protect the public in this manner; it would amount to a "giveaway" to the contractor since public funds created the invention. H.R. 6933 protects the public in this regard through a series of specific safeguards. To put these safeguards in a proper context, I will first briefly describe the provisions of the bill that apply to large business contractors.

The bill requires that the contractor disclose each federally funded invention to the contracting agency. The contractor then receives a "holding" title in the invention for a maximum of four-and-one-half years from the date of invention disclosure. This "holding" title does not give the contractor exclusive commercial rights or even the right to market the invention at all. Its purpose is merely to assist in filing

foreign patent applications and to give the contractor time to choose appropriate fields of use. To obtain marketing and other commercial rights, the contractor must file with the contracting agency during the four-and-one-half-year period a description of each field of use in which it intends to commercialize the invention. After the contractor files its described fields of use, but not later than the four-and-one-half-year period, the government acquires title. Ninety days after submitting the described fields of use, the contractor receives an exclusive license in the described fields provided that it survives the agency's opportunity to take a "second look."

The "second look" provision is a crucial safeguard in protecting the public interest. It prohibits the agency from granting an exclusive license to a large business contractor if the agency determines, prior to granting the license, that the contractor's possession of such a license would impair national security or "would create or maintain a situation inconsistent with the antitrust laws." The agency may exercise its "second look" within ninety days after the contractor requests an exclusive license in a particular field of use. The "second look" enables the agency to assess anticompetitive effects of granting exclusive commercial rights at the best time to undertake such an assessment -- after disclosure of the invention but prior to granting the rights. This is a far better time to make an assessment than the time of contracting,

which at present is the time when many agencies blindly waive title to inventions that are not yet discovered. Moreover, since the agency decision under the bill's second look provision would be prior to awarding exclusive commercial rights, it would be made before the occurrence of, and would thereby avoid, harm to the public.

Another public interest safeguard that minimizes contractor supracompetitive profits is the bill's "march in" provision. Unlike the "second look," this provision applies after the grant of exclusive commercial rights. H.R. 6933 permits the government to "march in" at any time after rights are granted and terminate, wholly or partly, the exclusive rights if "practical application" of the invention has not been achieved, if necessary to protect the national security, if necessary to meet the requirements for public use specified by federal regulation, or if the contractor's rights "would create or maintain a situation inconsistent with the antitrust laws."

Since both the "second look" and "march-in" provisons are applicable when the acquisition or maintenance of exclusive rights "would create a situation inconsistent with the antitrust laws," 2/ they both incorporate the traditional

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2/ Similar language is found in other federal statutes. See, e.g., Outer Continental Shelf Lands Act of 1978, 43 U.S.C. § 1337; Naval Petroleum Reserves Production Act of 1976, 10 U.S.C. § 7430(g)(2); Federal Coal Leasing Amendments Act of 1976, 30 U.S.C. § 184(l)(2); 1970 Amendments to the Atomic Energy Act of 1954, 42 U.S.C. § 2135; Federal Property and Administrative Services Act of 1949, § 207 (40 U.S.C. § 488).

competition standards of Section 7 of the Clayton Act. As such, the government may exercise its "march in" and "second look" rights when the contractor's acquisition of exclusive rights may tend substantially to lessen competition, even if such a lessening of competition has not yet occurred. The "march in" provision is additionally helpful because it also applies when "practical application" of the invention is not achieved. Since "practical application" is defined as occurring only when the benefits of an invention are "available to the public on reasonable terms," "march in" could result whenever the contractor fails to offer the invention to the public on "reasonable" terms. Thus, the "second look" and "march in" provisions should help assure that the availability of exclusive rights provided by H.R. 6933 does not disrupt competition in the marketplace.

Two additional provisions in H.R. 6933 serve as safeguards to minimize supra competitive profits to contractors. First, the government receives a royalty free nonexclusive license to practice the invention. Second, at the time of contracting, to further the public interest an agency may deviate from the general patent rights allocation system provided in the bill and give less rights to the contractor.

In addition to furthering the goals of increasing commercialization and of protecting the public's equitable interest in inventions, H.R. 6933 promotes the other three

goals of government patent policy, each of which produces distinct benefits to the public. First, it effectively encourages private contractors to exert their best efforts, as well as to participate as widely as possible, in government sponsored research and development programs. Well qualified businesses with strong proprietary positions in particular fields are sometimes reluctant to bid for government research and development contracts unless they can be assured that their independently acquired proprietary positions will not be compromised. They are unwilling to utilize what they believe is their superior know-how to invest in and commercialize a product, only to have competitors share the benefits of their work. These firms are often in the position to do the best job on the contract research and to carry it out at the lowest price. Indeed, they may come up with solutions or inventions that less skilled firms would not have come up with. It is therefore clearly in the public interest to have these firms bid on government contracts. Providing such businesses with the opportunity to receive exclusive rights will induce them to participate and to exert their best efforts in the program.

Moreover, this widespread participation could bring distinct cost savings to the government. When the bidding for the contract is competitive, firms could factor into their bids the facts that the winner would ordinarily obtain an exclusive grant, that more firms may be bidding to obtain that grant, and

that the bidding of others may be at lower prices. Therefore, increased participation should result in more competitive and, hence, lower bids.

It should be stressed that, while H.R. 6933 should increase participation in government contracts, private research should not be adversely affected. The number of government research contracts is limited. Thus, while the incentives provided by the bill should increase the number of bidders, it will not increase the number of successful bidders. We believe that firms that do not win contracts and thereby receive exclusive rights in federally funded inventions may be encouraged to accelerate their own research and development programs to successfully compete. In this sense, the grant of exclusive rights under H.R. 6933 could spur innovation by competitors and, hence, competition.

The fourth and fifth goals of government patent policy, relating to encouraging disclosure of inventions and promoting administrative efficencies, are also promoted by the bill. The availability of exclusive rights encourages the contractor to disclose fully to the sponsoring agency all inventions made under the contract. The bill tends to eliminate unnecessary administrative costs incurred by the government or its contractors by establishing a uniform patent allocation system. While the bill treats small businesses and nonprofit

institutions differently than large businesses, a given business will now be treated the same by all agencies.

With respect to the bill's different treatment of small businesses and nonprofit institutions, these entities would generally receive title to inventions, as opposed to the exclusive licenses in selected fields of use given to large businesses. Also, acquisitions of exclusive rights by small businesses and nonprofit institutions are not reviewable by the government under the "second look" provision. The decision to treat small businesses differently involved a number of factors. First, small businesses and nonprofit organizations have a special place and function in our society. Second, small businesses and nonprofit institutions typically would have insufficient market power for their acquisitions to create serious anticompetitive situations, thus minimizing the need for a "second look" provision. Third, the bill's requirements imposed on large businesses with respect to filing described fields of use may be administratively burdensome for very small businesses to undertake. While small businesses and nonprofit institutions are treated differently, however, specific provisions are included in the bill to protect the public interest. Thus, where an acquisition of title by one of these contractors raises anticompetitive or other public interest concerns, the bill provides the government with "march in" rights identical to those available against large businesses.

In summary, the Justice Department has analyzed the basic goals of government patent policy and concludes that H.R. 6933 will maximize public benefits from government sponsored research.

Mr. Chairman, this concludes my prepared statement. I would be happy to answer any questions you or members of the Subcommittee may have.

Mr. BROOKS. Our next witness is Daniel Boorstin. Dr. Boorstin is the Librarian of Congress, a distinguished author and educator. He has served as the Librarian since 1975. He is a Rhodes scholar and holds degrees from Harvard University, Oxford, Yale, and Cambridge. He is the author of numerous important works of American history.

He is accompanied by David Ladd, the Register of Copyrights, and Ms. Adoreen McCormick, Legislative Liaison Officer.

We are delighted to have you all here, Doctor. We will accept your statement and your comments.

STATEMENT OF DANIEL J. BOORSTIN, LIBRARIAN OF CONGRESS; ACCOMPANIED BY DAVID LADD, REGISTER OF COPYRIGHTS; AND ADOREEN McCORMICK, LEGISLATIVE LIAISON OFFICER

Mr. BOORSTIN. Thank you, Mr. Chairman.

My statement is very brief. I would like to read it, if I may.

I do appreciate this opportunity to appear here today to address the Library of Congress concerns with respect to H.R. 6933, a bill to amend the patent and trademark laws.

I appear here today not to discuss the general provisions relating to patents and trademarks but specifically to address section 9 of H.R. 6933 as reported by the House Committee on the Judiciary. The section provides that the Comptroller General shall submit to the Congress and the President no later than July 1, 1981, a report analyzing the efficiency of the Copyright Office and the Copyright Royalty Tribunal and making recommendations as to whether these two entities should be merged with an independent Patent and Trademark Office.

The Copyright Office has been an integral part of the Library of Congress since 1870. The Library is charged with the responsibility of protecting the works of authors, artists, composers, and other creative persons as a function compatible with its mission to house and service the Nation's intellectual resources. A merger of the Copyright Office with the Patent and Trademark Office, in my opinion, would not serve the creators of intellectual property as well as has the Library of Congress in its more than 110 years of stewardship. The Library of Congress has served the Constitution well in administering the U.S. copyright law.

My request here is that section 9, providing for the study, be deleted from the bill, regardless of what action is taken on the proposal to remove the Patent and Trademark Office from the Department of Commerce.

While the Library of Congress has always cooperated with and welcomed audits by the General Accounting Office, I must point out that a study of the Copyright Office right now comes at an inopportune time. The Copyright Office is presently adapting to several important changes. The Copyright Office and the public are still accommodating to the recent comprehensive revision of the copyright law in 1976, effective in 1978. A new Register of Copyrights has just been appointed. The entire staff has within the last 3 weeks been moved from quarters in Crystal City into the new Madison Building on Capitol Hill. And, finally, the Copyright Office has recently undergone comprehensive studies by the inves-

tigative staff of the House Committee on Appropriations and, at the direction of the Library, an internal audit by the Library of Congress audit staff within the last year.

First, Mr. Chairman, Congress has recently revised the entire copyright law for the first time in 70 years to meet the demands of emerging technologies. The act, which became effective in January 1978, requires the implementation of entirely new procedures and expands significantly the types of materials eligible for registration. In order to meet the requirements of the new law, automated systems had to be developed. These systems now have been developed, and I am happy to report that the cataloging and processing activities of the Copyright Office are compatible with those of the Library's Processing Services Department. Thus, the rich resources received through copyright deposit are available for the use of the Congress, the Government, and the world of authorship as quickly as they are received in the Library.

When the Congress enacted the 1976 Copyright Act, the question of the Copyright Office remaining in the legislative branch was before the House committee. The decision, after deliberation, was to continue the working partnership between the Library and the Copyright Office, which has served both organizations and the public well for over 100 years. Despite the new functions of the Copyright Office, in cable television and other compulsory licensing areas, which the new law imposes upon the Office, I believe Congress wisely perceived that the fundamental mission of the Copyright Office remained the same and that neither the Office nor the Library should sever their productive, traditional partnership.

Then, Mr. Chairman, in May of this year, after a nationwide search of an outside search committee composed of leading experts in copyright law and users of copyrighted materials, I appointed David Ladd, who is with us here today, as Register of Copyrights. Mr. Ladd is just now beginning to implement new policies to make the Copyright Office more responsive to its public and more effective as the major acquisitions agent for the Library of Congress for U.S. publications.

Finally, as I mentioned, Mr. Chairman, the Copyright Office has just completed its move from Crystal City to the Library of Congress James Madison Memorial Building. And there have been the two recent organizational and management studies of the Copyright Office which I have mentioned.

I have high hopes that with a new Register and the further integration of the Copyright Office with the rest of the Library the Copyright Office will be able to make great strides in improving its services to the copyright community and to the public. To place the added burden of a new study coupled with uncertainty of its organizational location right now would, I believe, hinder the new Register in accomplishing the tasks that are before him. I therefore ask that section 9 be deleted from the bill.

My colleagues and I would be happy to answer any questions you may have.

Mr. BROOKS. I want to thank you, Doctor, for a good and comprehensive statement. You laid out just another reason why we ought to take a look at this bill. It has just a few little filips that are not totally necessary for the survival of the country.

Mr. Horton?

Mr. HORTON. Thank you, Mr. Chairman.

Dr. Boorstin, I certainly agree with the chairman. I think you have made an excellent statement. I would be very much concerned about the transfer of the two offices that you mentioned into a proposed new agency, not only because of their history, but also because of the fact that you are doing things to increase the responsibilities of the Copyright Office and to carry out those responsibilities. It seems to me it would be ill advised to make a move at this time. I do not see any need to study it. I certainly agree with the position you have explained to us here this morning. It certainly makes a lot of sense to me.

Thank you.

Mr. BROOKS. Mr. Moorhead?

Mr. MOORHEAD. Thank you, Mr. Chairman.

Dr. Boorstin, I would take it that your recommendations against the transfer would be the same whether there was an independent entity or whether we continued the Patent Office in the Commerce Department.

Mr. BOORSTIN. Yes, sir.

Mr. MOORHEAD. Thank you, Mr. Chairman.

Mr. HORTON. Leave it like it is—that is what you are saying?

Mr. BOORSTIN. Yes, sir.

Mr. BROOKS. Mr. Stangeland?

Mr. STANGELAND. Thank you, Mr. Chairman.

I guess, as the saying goes, "If it isn't broke, don't fix it." But what would the study show to be the benefits of merging the two? Can you see any benefits coming from it?

Mr. BOORSTIN. We cannot see any. There have been extensive studies made, both by Congress and internally by our Audit Division, so I cannot see any further benefits, and I can see some considerable disadvantages to such a study at this time.

Mr. LADD. May I respond to that?

Mr. STANGELAND. Certainly.

Mr. BROOKS. The gentleman is recognized.

Mr. LADD. I am giving a talk today to the Government Patent Law Association which has, as its recurring theme, several times stated, "If it ain't broke, don't fix it." I will be glad to send you a copy of that talk. It examines the proposition as to whether or not the Copyright Office——

Mr. HORTON. I think it would be helpful, Mr. Chairman, if we could have that put in the record.

Mr. BROOKS. It depends on how long it is. We will take it for the file, Mr. Ladd. If you will send us a copy, we will take a look at it.

Mr. HORTON. It is not too long, is it?

Mr. LADD. No, but feel free to edit or eliminate from it. I will send copies to the chairman.[1]

Mr. BROOKS. We want to thank you and your associates very much, Doctor, for coming down here.

Mr. BOORSTIN. Thank you, Mr. Chairman.

Mr. BROOKS. Our next witness is Karen Williams. Ms. Williams currently is the Administrator of the Office of Federal Procurement Policy within the Office of Management and Budget, which this subcommittee and this committee is very familiar with. She

[1]The speech was subsequently submitted for the record. See app., p. 208.

was formerly chief counsel of the Senate Budget Committee, has an M.A. from Fletcher, and a law degree from Columbus Law School. She clerked for Supreme Court Justice Thurgood Marshall and, incidentally, is the daughter of William H. Hastie, a long-time distinguished member of the U.S. Court of Appeals for the Third Circuit.

Ms. Williams, we welcome you, and we would appreciate your comments.

STATEMENT OF KAREN HASTIE WILLIAMS, ADMINISTRATOR, OFFICE OF FEDERAL PROCUREMENT POLICY, OFFICE OF MANAGEMENT AND BUDGET; ACCOMPANIED BY PATRICIA A. SZERVO, ASSOCIATE ADMINISTRATOR FOR PROCUREMENT LAW AND LEGISLATION; AND HERMAN E. SHIPLEY, DEPUTY ASSOCIATE ADMINISTRATOR, MAJOR SYSTEM ACQUISITIONS AND PROCUREMENT STRATEGIES

Ms. WILLIAMS. Thank you very much, Mr. Chairman.

I would ask that the full text of my prepared comments be included in the subcommittee's record, and I will summarize my comments.

Mr. BROOKS. Without objection, it will be included in the record. [See p. 113.]

Ms. WILLIAMS. I am pleased to have the opportunity to appear today to express the views of the Office of Management and Budget on H.R. 6933, the Government Patent Policy Act of 1980.

My name is Karen Hastie Williams, and I am the Administrator of the Office of Federal Procurement Policy. Joining me this morning are Patricia A. Szervo, Associate Administrator for Procurement Law and Legislation, and Herman E. Shipley, Deputy Associate Administrator for Major System Acquisitions and Procurement Strategies, both of OFPP.

As a matter of background, Mr. Chairman, the original H.R. 6933 introduced on March 26, 1980, was the administration's sponsored proposal which resulted from President Carter's extensive study during 1978 and 1979 of ways to improve industrial innovation.

President Carter, in his industrial innovation message to the Congress on October 31, 1979, emphasized that—

> Industrial innovation—the development and commercialization of new products and processes—is an essential element of a strong and growing American economy. It helps insure economic vitality, improved productivity, international competitiveness, job creation, and an improved quality of life for every American. Further, industrial innovation is necessary if we are to solve some of the Nation's most pressing problems—reducing inflation, providing new energy supplies and better conserving existing supplies, insuring adequate food for the world's population, protecting the environment and our natural resources, and improving health care.

The Federal Government provides about one half of all the money spent each year in this country on research and development. The allocation of rights in patentable inventions made during the course of that work affects the pace of industrial innovation in the Nation through its effect on firms' incentives and ability to innovate. This allocation affects the willingness of firms to undertake Government research and development work because they must weigh the benefits of the Government dollar against the impact on their commercial business diverting resources to do Government work.

President Carter further observed in his industrial innovation message—

> For over 30 years, the Federal agencies supporting research and development in industry and universities have had conflicting policies governing the disposition of (patent) rights resulting from that work. This confusion has seriously inhibited the use of those patents in industry.

The source of the confusion noted by the President has been the inability, until now, of any administration to resolve the diverse considerations involved into a single policy.

In providing title to small businesses and nonprofit organizations only the special place of these organizations in our society is acknowledged. This special place also has been recognized by the Regulatory Flexibility Act, S. 299, just passed by the House and Senate, which requires agencies to tailor their regulations taking into account the size and resources of the contractor affected.

This policy is justified by the fact that, unlike larger contractors whose commercial interest in an invention is apt to be limited by the field in which it already is or is planning to become engaged, small businesses and nonprofit organizations share a strong incentive to attempt to commercialize an invention to the widest possible extent.

The recognition that small businesses play a central role in both job creation and innovation is in concert with the recommendations of the White House Conference on Small Business.

However, the President's decision to provide contractors other than small businesses and nonprofit organizations only with exclusive licenses in particular fields of use recognizes, Mr. Chairman, that a complete transfer of title to larger businesses usually is unnecessary to induce their participation in Government research and development work. The Government, in those cases, retains title and the right to license the invention or otherwise make it available to the public in all fields of use not selected.

These provisions of the bill for both small businesses and nonprofit organizations, and larger businesses, are in concert with the President's economic program for the eighties to encourage private investment to revitalize America's economy so we can produce more, export more, invent more, and employ more.

Enactment of a bill with these provisions would stimulate the industrial innovation process by contributing to the more effective utilization of inventions made in the course of federally sponsored or supported research and development work. Further, the bill would resolve longstanding policy issues, answers to which the Congress, the executive branch, industry, and the public actively have sought for a generation. The bill will reduce the administrative burden now imposed upon contractors and Government agencies alike.

Further, such a bill responds to the 1972 recommendations to the Congress of the Bipartisan Commission on Government Procurement that legislation be enacted which would make uniform the Federal practices in the area of allocating the rights to contract inventions and make clear the Government's authority to grant exclusive licenses under federally-owned inventions. The bill would codify the basic policy concepts of Executive Order 10096, the provi-

sions of which uniformly would be applicable to all Federal employees.

It is anticipated, Mr. Chairman, that following enactment and implementation of such a bill, greater commercial use will be made of the technology resulting from the Federal Government's research and development effort, in turn, creating additional employment, a higher standard of living, improved balance of payments, and an overall economic benefit to the United States as a whole, while protecting the public against any possible wrongful contractor conduct.

I believe this background is important to keep in mind while considering the September 9, 1980, version of H.R. 6933, from the Judiciary Committee, which the subcommittee has before it.

I also believe that it is important for this committee to be aware of the current executive branch policy on recoupment. The Council on International Economic Policy Decision Memorandum 23 of August 1974, calls for recoupment of Federal research and development funds from non-Federal performers when commercial sales of products utilizing federally supported or sponsored technology are made to non-U.S. Government buyers. This policy has been formally implemented by Defense, Energy, and NASA, and hundreds of millions are recouped annually. OFPP has the responsibility to provide uniform policy direction to implement this White House policy across all agencies. Mr. Chairman, this will be included as one feature of the Uniform Procurement System proposal which we will submit to Congress next month.

I also respectfully submit that section 11, which amends title 35, United States Code, to establish the Patent and Trademark Office as an independent agency should be deleted. Mr. Chairman, as you cogently stated in your dissent to the Judiciary Committee report on H.R. 6933, and as Secretary of Commerce Klutznick testified yesterday, the case has not been made to separate the Patent Office from the Department of Commerce. Taking the Patent Office out of Commerce will not enhance its efficiency or improve its services to the business community and the public. It would, however, require more funds, as the services provided by Commerce would no longer be available.

The Department of Commerce has a clear role in promoting industrial innovations and sponsoring, with other agencies and industry, areas of science and technology with potential for commercial development.

With these changes, Mr. Chairman, the administration supports enactment of H.R. 6933.

Before I close my statement, Mr. Chairman, I would like to emphasize that, while this is important landmark legislation, it is not the end of the consideration of patent policy in Government contracting. As you are well aware, OFPP, in implementing the Uniform Procurement System under Public Law 96-83, will continue to assess appropriate legislation, policy, regulations, and practice with regard to allocation of rights to patents resulting from Federal sponsorship or support of research and development.

That concludes my statement, Mr. Chairman. I will be glad to answer any questions you or other members of the subcommittee may have.

Mr. BROOKS. We want to thank you very much for coming down and for getting up early this morning and looking over that statement. I know you have been traveling, busy, and working hard.

Ms. WILLIAMS. Trying to, Mr. Chairman.

Mr. BROOKS. I wish you had had more time to work on that statement, though. [Laughter.]

However, that last paragraph indicates that you are still studying this issue and still working on it. What studies have you completed on the issue of patent policy, as per the instructions of the bill passed last year—Public Law 86-93?

Ms. WILLIAMS. Mr. Chairman, the Office of Federal Procurement Policy has been a principal participant in a number of interagency studies on patent policy, starting out in 1976, 1978, and again last year. We are an integral part of the President's domestic policy review on industrial innovation and utilize the interagency resources in examining the question of patents.

Mr. BROOKS. Have any studies been completed on that?

Ms. WILLIAMS. The President's review policy did complete a study.

Mr. BROOKS. But you have not individually—you participated in that one?

Ms. WILLIAMS. We participated in their study.

Mr. BROOKS. But you are now continuing one of your own, you say.

Ms. WILLIAMS. As part of the development of the Uniform Procurement System.

Mr. BROOKS. When will that be completed?

Ms. WILLIAMS. The proposal for the outline of that system is due to the Congress next month—in October—and we plan to meet that deadline. During the course of the following year, as directed by this committee, we will be developing legislative recommendations to the Congress to implement that policy, and we would propose to consult with this committee in that process.

Mr. BROOKS. We certainly thank you. It is a pleasure to have you all down here, and we thank you for your help.

Ms. WILLIAMS. Thank you very much.

[Ms. Williams' prepared statement follows:]

EXECUTIVE OFFICE OF THE PRESIDENT
OFFICE OF MANAGEMENT AND BUDGET
WASHINGTON, D.C. 20503

OFFICE OF FEDERAL
PROCUREMENT POLICY

HOLD FOR RELEASE UNTIL DELIVERY
EXPECTED AT 9:30 A.M., SEPTEMBER 17, 1980

STATEMENT OF KAREN HASTIE WILLIAMS
ADMINISTRATOR
OFFICE OF FEDERAL PROCUREMENT POLICY
OFFICE OF MANAGEMENT AND BUDGET
BEFORE THE
LEGISLATION AND NATIONAL SECURITY SUBCOMMITTEE
OF THE
HOUSE GOVERNMENT OPERATIONS COMMITTEE
SEPTEMBER 17, 1980

MR. CHAIRMAN AND MEMBERS OF THE SUBCOMMITTEE:

I AM PLEASED TO HAVE THE OPPORTUNITY TO APPEAR TODAY TO EXPRESS THE VIEWS OF THE OFFICE OF MANAGEMENT AND BUDGET (OMB) ON H.R. 6933, THE GOVERNMENT PATENT POLICY ACT OF 1980. MY NAME IS KAREN HASTIE WILLIAMS AND I AM THE ADMINISTRATOR OF THE OFFICE OF FEDERAL PROCUREMENT POLICY (OFPP). JOINING ME THIS MORNING ARE PATRICIA A. SZERVO, ASSOCIATE ADMINISTRATOR FOR PROCUREMENT LAW AND LEGISLATION, AND HERMAN E. SHIPLEY, DEPUTY ASSOCIATE ADMINISTRATOR FOR MAJOR SYSTEM ACQUISITIONS AND PROCUREMENT STRATEGIES, BOTH OF OFPP.

AS A MATTER OF BACKGROUND, MR. CHAIRMAN, THE ORIGINAL H.R. 6933 INTRODUCED ON MARCH 26, 1980, WAS THE ADMINISTRATION'S SPONSORED PROPOSAL WHICH RESULTED FROM PRESIDENT CARTER'S EXTENSIVE STUDY DURING 1978 AND 1979 OF WAYS TO IMPROVE INDUSTRIAL INNOVATION.

PRESIDENT CARTER, IN HIS INDUSTRIAL INNOVATION MESSAGE TO THE CONGRESS OF OCTOBER 31, 1979, EMPHASIZED THAT:

> "INDUSTRIAL INNOVATION -- THE DEVELOPMENT AND COMMERCIALIZATION OF NEW PRODUCTS AND PROCESSES -- IS AN ESSENTIAL ELEMENT OF A STRONG AND GROWING AMERICAN ECONOMY. IT HELPS ENSURE ECONOMIC VITALITY, IMPROVED PRODUCTIVITY, INTERNATIONAL COMPETITIVENESS, JOB CREATION, AND AN IMPROVED QUALITY OF LIFE FOR EVERY AMERICAN. FURTHER, INDUSTRIAL INNOVATION IS NECESSARY IF WE ARE TO SOLVE SOME OF THE NATION'S MOST PRESSING PROBLEMS -- REDUCING INFLATION, PROVIDING NEW ENERGY SUPPLIES AND BETTER CONSERVING EXISTING SUPPLIES, ENSURING ADEQUATE FOOD FOR THE WORLD'S POPULATION, PROTECTING THE ENVIRONMENT AND OUR NATURAL RESOURCES, AND IMPROVING HEALTH CARE."

INDUSTRIAL INNOVATION IS PRIMARILY THE RESPONSIBILITY OF THE PRIVATE SECTOR. IN OUR ECONOMIC SYSTEM, THE MANAGEMENT OF EVERY FIRM MUST DECIDE WHETHER TO INNOVATE. INNOVATION IS POSSIBLE EITHER BY DEVELOPING AND MARKETING NEW PRODUCTS OR BY FINDING AND EMPLOYING NEW WAYS OF MAKING EXISTING PRODUCTS. SINCE NEW PRODUCTS OFFER OPPORTUNITIES FOR INCREASED SALES, AND SINCE NEW PROCESSES CAN OFFER COST SAVINGS, THE PROFIT MOTIVE PROVIDES A POWERFUL STIMULUS TO INNOVATIVE ACTIVITY BY THE PRIVATE SECTOR.

WHILE IT IS THE PRIVATE DECISIONMAKER WHO DETERMINES WHETHER INNOVATION TAKES PLACE, THE FEDERAL GOVERNMENT CAN ESTABLISH A CLIMATE WHICH EITHER ENCOURAGES OR DISCOURAGES INNOVATIVE ACTIVITY.

THE PROGRESS OF AN INVENTION FROM IDEA TO COMMERCIAL PRODUCT OR PROCESS ORDINARILY IS LONG AND EXPENSIVE. THE TEMPORARY PATENT MONOPOLY PROVIDED FOR BY THE CONSTITUTION ENCOURAGES AN ENTREPRENEUR TO INVEST RISK CAPITAL TO DEVELOP AN INVENTION SECURE IN THE KNOWLEDGE THAT, IF HIS EFFORTS ARE SUCCESSFUL, HE WILL HAVE AN OPPORTUNITY TO OBTAIN A RETURN ON HIS INVESTMENT BEFORE HIS COMPETITORS ARE FREE TO COPY CHEAPLY WHAT HE PRODUCED WITH SUCH DIFFICULTY.

PATENT RIGHTS AFFECT POSITIVELY THE ENTREPRENEUR'S ABILITY TO RAISE RISK CAPITAL. PATENT RIGHTS OFFER THE SUCCESSFUL INVENTOR-ENTREPRENEUR A RESPITE FROM COMPETITION IN WHICH TO ENJOY THE FRUITS OF SUCCESS.

PATENT RIGHTS ARE PARTICULARLY IMPORTANT TO SMALL FIRMS. FIRMS WHICH DO NOT ALREADY POSSESS COMPETITIVE ADVANTAGES SUCH AS A POPULAR TRADE NAME, MANUFACTURING EXPERIENCE, ESTABLISHED CHANNELS OF DISTRIBUTION, OR SIZE, ARE MORE LIKELY TO NEED EXCLUSIVE COMMERCIAL RIGHTS TO ATTRACT RISK CAPITAL AND RECOVER COMMERCIALIZATION COSTS THAN FIRMS WHICH DO ENJOY SUCH ADVANTAGES. GIVEN OUR PRESENT CONCERNS, THIS IS AN IMPORTANT POINT.

WHILE THE RECORD OF LARGE INNOVATIVE FIRMS IS SUBSTANTIAL, THE RECORD OF SMALL BUSINESSES BASED ON TECHNOLOGICAL INNOVATION -- ESPECIALLY THOSE IN HIGH TECHNOLOGY AREAS -- IS EVEN MORE IMPRESSIVE. A 1975 STUDY COMMISSIONED BY THE NATIONAL SCIENCE FOUNDATION REPORTED THAT IN THE PERIOD FROM 1953 TO 1973 ABOUT ONE-HALF OF THE MAJOR INNOVATIONS PRODUCED BY UNITED STATES INDUSTRY WERE MADE BY FIRMS WITH FEWER THAN ONE THOUSAND EMPLOYEES AND ABOUT ONE-QUARTER WERE MADE BY FIRMS WITH FEWER THAN 100 EMPLOYEES.

THE FEDERAL GOVERNMENT PROVIDES ABOUT ONE-HALF OF ALL THE MONEY SPENT EACH YEAR IN THIS COUNTRY ON RESEARCH AND DEVELOPMENT. THE ALLOCATION OF RIGHTS IN PATENTABLE INVENTIONS MADE DURING THE COURSE OF THAT WORK AFFECTS THE PACE OF INDUSTRIAL INNOVATION IN THE NATION THROUGH ITS EFFECT ON FIRMS' INCENTIVES AND ABILITY TO INNOVATE. THIS ALLOCATION AFFECTS THE WILLINGNESS OF FIRMS TO UNDERTAKE GOVERNMENT RESEARCH AND DEVELOPMENT WORK BECAUSE THEY MUST WEIGH THE BENEFITS OF THE GOVERNMENT DOLLAR AGAINST THE IMPACT ON THEIR COMMERCIAL BUSINESS OF DIVERTING RESOURCES TO DO GOVERNMENT WORK.

AS PRESIDENT CARTER OBSERVED IN HIS INDUSTRIAL INNOVATION MESSAGE:

"FOR OVER THIRTY YEARS, THE FEDERAL AGENCIES SUPPORTING RESEARCH AND DEVELOPMENT IN INDUSTRY AND UNIVERSITIES HAVE HAD CONFLICTING POLICIES GOVERNING THE DISPOSITION OF (PATENT) RIGHTS RESULTING FROM THAT WORK. THIS CONFUSION HAS SERIOUSLY INHIBITED THE USE OF THOSE PATENTS IN INDUSTRY."

THE SOURCE OF THE CONFUSION NOTED BY THE PRESIDENT HAS BEEN THE INABILITY, UNTIL NOW, OF ANY ADMINISTRATION TO RESOLVE THE DIVERSE CONSIDERATIONS INVOLVED INTO A SINGLE POLICY.

WHILE THERE WAS MUCH DEBATE ON WHAT ADMINISTRATION POLICY SHOULD BE, THERE HAS BEEN WIDE SUPPORT FOR NINE PROPOSITIONS RELATING TO GOVERNMENT PATENT POLICY. STATED IN THEIR SIMPLIST TERMS, THESE ARE THAT GOVERNMENT PATENT POLICY SHOULD STRIVE TO:

1. OBTAIN THE BEST CONTRACTOR EFFORT FOR THE GOVERNMENT;

2. MAXIMIZE TECHNOLOGICAL INNOVATION;

3. PROMOTE COMPETITION WITHIN THE PRIVATE SECTOR;

4. RECOGNIZE THE PUBLIC'S EQUITY IN THE PRODUCTS OF FEDERALLY SPONSORED OR SUPPORTED RESEARCH AND DEVELOPMENT;

5. STRENGTHEN THE RESEARCH PROGRAMS OF UNIVERSITIES;

6. PROVIDE SPECIAL INCENTIVES FOR SMALL BUSINESSES;

7. BE UNIFORM, IN THE SENSE THAT LIKE CASES SHOULD BE TREATED ALIKE NO MATTER WHICH GOVERNMENT AGENCY PROVIDES THE SUPPORT AND IN THE SENSE THAT THERE SHOULD BE ONLY A SINGLE SET OF PATENT REGULATIONS WITH WHICH POTENTIAL GOVERNMENT CONTRACTORS MUST DEAL;

8. BE FLEXIBLE, IN THE SENSE THAT DIFFERING CASES SHOULD BE TREATED APPROPRIATELY, THAT IS, NOT NECESSARILY IDENTICALLY; AND

9. BE AS CLEAR AND AS SIMPLE AS POSSIBLE.

IT IS RECOGNIZED THAT THE RECEIPT OF TITLE BY SMALL BUSINESSES AND NONPROFIT ORGANIZATIONS IS JUSTIFIED BY THE SPECIAL PLACE OF THESE ORGANIZATIONS IN OUR SOCIETY. THIS SPECIAL PLACE IS RECOGNIZED BY THE REGULATORY FLEXIBILITY ACT, S. 299 JUST PASSED BY THE HOUSE AND SENATE, WHICH REQUIRES AGENCIES TO TAILOR THEIR REGULATIONS TAKING INTO ACCOUNT THE SIZE AND RESOURCES OF THE CONTRACTOR AFFECTED.

THIS POLICY ALSO IS JUSTIFIED BY THE FACT THAT, UNLIKE LARGER CONTRACTORS WHOSE COMMERCIAL INTEREST IN AN INVENTION IS APT TO BE LIMITED BY THE FIELD IN WHICH IT ALREADY IS, OR IS PLANNING TO BECOME, ENGAGED, SMALL BUSINESSES AND NONPROFIT ORGANIZATIONS SHARE A STRONG INCENTIVE TO ATTEMPT TO COMMERCIALIZE AN INVENTION TO THE WIDEST POSSIBLE EXTENT.

THE RECOGNITION THAT SMALL BUSINESSES PLAY A CENTRAL ROLE IN BOTH JOB CREATION AND INNOVATION IS IN CONCERT WITH THE RECOMMENDATIONS OF THE WHITE HOUSE CONFERENCE ON SMALL BUSINESS.

THE PRESIDENT"S DECISION TO PROVIDE CONTRACTORS OTHER THAN SMALL BUSINESSES AND NONPROFIT ORGANIZATIONS WITH EXCLUSIVE LICENSES IN PARTICULAR FIELDS OF USE RECOGNIZES THAT A COMPLETE TRANSFER OF TITLE TO THE CONTRACTOR USUALLY IS UNNECESARY TO INDUCE ITS PARTICIPATION IN GOVERNMENT RESEARCH AND DEVELOPMENT WORK AND ITS COMMERCIALIZATION OF THE INVENTION. THE GOVERNMENT RETAINS THE RIGHT TO LICENSE THE INVENTION OR OTHERWISE MAKE IT AVAILABLE TO THE PUBLIC IN ALL FIELDS OF USE NOT SELECTED BY THE CONTRACTOR.

ALTHOUGH THE CONTRACTOR WILL KNOW AT THE TIME OF CONTRACTING THAT IT WILL BE ABLE TO RECEIVE EXCLUSIVE LICENSES UNDER ANY FORTHCOMING INVENTION IN PARTICULAR FIELDS OF USE, IT

WILL NOT ACTUALLY RECEIVE THOSE LICENSES UNTIL THE INVENTION HAS BEEN IDENTIFIED, ITS INTENTION TO COMERCIALIZE HAS BEEN ANNOUNCED, AND ITS SELECTION OF FIELDS OF USE HAVE BEEN SUBMITTED TO THE CONTRACTING AGENCY. AFTER THE CONTRACTOR HAS SUBMITTED COMPLETE INFORMATION REGARDING THE INVENTION, ITS INTENTION TO COMMERCIALIZE, AND ITS SELECTION OF FIELDS OF USE, THE AGENCY HAS NINETY DAYS IN WHICH IT MAY DETERMINE WHETHER THE CONTRACTOR'S ACQUISITION OF AN EXCLUSIVE LICENSE IN ANY SELECTED FIELD OF USE "WOULD IMPAIR NATIONAL SECURITY," OR "WOULD CREATE OR MAINTAIN A SITUATION INCONSISTENT WITH THE ANTITRUST LAWS." NO EXCLUSION LICENSE WOULD BE GRANTED IN EITHER OF THESE CASES.

THESE PROVISIONS OF THE BILL FOR BOTH SMALL BUSINESSES AND NON-PROFIT ORGANIZATIONS, AND LARGER BUSINESSES, ARE IN CONCERT WITH THE PRESIDENT'S ECONOMIC PROGRAM FOR THE EIGHTIES TO ENCOURAGE PRIVATE INVESTMENT TO REVITALIZE AMERICA'S ECONOMY SO WE CAN PRODUCE MORE, EXPORT MORE, INVENT MORE, AND EMPLOY MORE.

ENACTMENT OF A BILL WITH THESE PROVISIONS WOULD STIMULATE THE INDUSTRIAL INNOVATION PROCESS BY CONTRIBUTING TO THE MORE EFFECTIVE UTILIZATION OF INVENTIONS MADE IN THE COURSE OF FEDERALLY SPONSORED OR SUPPORTED RESEARCH AND DEVELOPMENT

WORK. FURTHER, THE BILL WOULD RESOLVE LONGSTANDING POLICY ISSUES, ANSWERS TO WHICH THE CONGRESS, THE EXECUTIVE BRANCH, INDUSTRY, AND THE PUBLIC ACTIVELY HAVE SOUGHT FOR A GENERATION. THE BILL WILL REDUCE THE ADMINISTRATIVE BURDEN NOW IMPOSED UPON CONTRACTORS AND GOVERNMENT AGENCIES ALIKE.

FURTHER, SUCH A BILL RESPONDS TO THE 1972 RECOMMENDATIONS TO THE CONGRESS OF THE BIPARTISAN COMMISSION ON GOVERNMENT PROCUREMENT, THAT LEGISLATION BE ENACTED WHICH WOULD MAKE UNIFORM THE FEDERAL PRACTICES IN THE AREA OF ALLOCATING THE RIGHTS TO CONTRACT INVENTIONS AND MAKE CLEAR THE GOVERNMENT'S AUTHORITY TO GRANT EXCLUSIVE LICENSES UNDER FEDERALLY-OWNED INVENTIONS. THE BILL WOULD CODIFY THE BASIC POLICY CONCEPTS OF EXECUTIVE ORDER 10096, THE PROVISIONS OF WHICH UNIFORMLY WOULD BE APPLICABLE TO ALL FEDERAL EMPLOYEES.

IT IS ANTICIPATED THAT, FOLLOWING ENACTMENT AND IMPLEMENTATION OF SUCH A BILL, GREATER COMMERCIAL USE WILL BE MADE OF THE TECHNOLOGY RESULTING FROM THE FEDERAL GOVERNMENT'S RESEARCH AND DEVELOPMENT EFFORT, IN TURN, CREATING ADDITIONAL EMPLOYMENT, A HIGHER STANDARD OF LIVING, IMPROVED BALANCE OF PAYMENTS, AND AN OVERALL ECONOMIC BENEFIT TO THE UNITED STATES AS A WHOLE, WHILE PROTECTING THE PUBLIC AGAINST ANY POSSIBLE WRONGFUL CONTRACTOR CONDUCT.

ON THIS POINT OF OVERALL ECONOMIC BENEFIT TO THE NATION, MR. CHAIRMAN, IS THE POSITIVE IMPACT ON PRODUCTIVITY. A DEPARTMENT OF COMMERCE STUDY OF THE YEARS 1969 TO 1974 SHOWED THAT A GROUP OF LARGE INNOVATIVE FIRMS EXPERIENCED SALES GROWTH OF 13.2% WHILE A SIMILAR GROUP OF MATURE FIRMS HAD 11.4% SALES GROWTH. DESPITE THE SIMILARITY OF THEIR GROWTH IN SALES, EMPLOYMENT IN THE MATURE FIRMS GREW BY ONLY 0.6% WHILE EMPLOYMENT IN THE INNOVATIVE FIRMS GREW BY 4.3% -- OVER SEVEN TIMES AS MUCH.

IN THIS SAME PERIOD, A GROUP OF YOUNG HIGH TECHNOLOGY BUSINESSES ENJOYED A SALES GROWTH OF 42.5% -- ROUGHLY THREE TIMES AS GREAT AS THEIR LARGE COUNTERPARTS. THEIR EMPLOYMENT IN THAT PERIOD GREW BY 40.7% -- ALMOST TEN TIMES THE RATE OF THE LARGE INNOVATIVE FIRMS, AND SOME 65 TIMES AS MUCH AS THE LARGE MATURE FIRMS.

THE ACTUAL NUMBERS FOR THE PERIOD STUDIED SHOWED SIX LARGE MATURE FIRMS HAVING COMBINED SALES OF $36 BILLION CREATED 25,000 NEW JOBS. AT THE SAME TIME, FIVE YOUNG HIGH TECHNOLOGY FIRMS WITH COMBINED SALES OF $875 MILLION CREATED 35,000 NEW JOBS. FIVE LARGE INNOVATIVE FIRMS WITH SALES OF $21 BILLION CREATED 106,000 NEW JOBS. THIS EVIDENCE RUNS CONTRARY TO THOSE WHO HOLD THAT INNOVATION, ESPECIALLY WHEN APPLIED TO THE PRODUCTION PROCESS, THROWS PEOPLE OUT OF WORK. THE FACT IS THAT OVER TIME INNOVATIONS WHICH IMPROVE THE PRODUCTIVITY OF AN INDUSTRY INCREASE THE NUMBER OF WORKERS EMPLOYED WITHIN THE INDUSTRY.

I BELIEVE THIS BACKGROUND IS IMPORTANT TO KEEP IN MIND WHILE CONSIDERING THE SEPTEMBER 9, 1980, VERSION OF H.R. 6933, WHICH THE SUBCOMMITTEE HAS BEFORE IT.

I ALSO BELIEVE THAT IT IS IMPORTANT FOR THIS COMMITTEE TO BE AWARE OF THE CURRENT EXECUTIVE BRANCH POLICY ON RECOUPMENT. THE COUNCIL ON INTERNATIONAL ECONOMIC POLICY DECISION MEMORANDUM 23, OF AUGUST 1974 -- CALLS FOR RECOUPMENT OF FEDERAL RESEARCH AND DEVELOPMENT FUNDS FROM NON-FEDERAL PERFORMERS WHEN COMMERCIAL SALES OF PRODUCTS UTILIZING FEDERAL SUPPORTED OR SPONSORED TECHNOLOGY ARE MADE TO NON-U.S. GOVERNMENT BUYERS. THIS POLICY HAS BEEN FORMALLY IMPLEMENTED BY DEFENSE, ENERGY AND NASA AND HUNDREDS OF MILLIONS ARE RECOUPED ANNUALLY. OFPP HAS THE RESPONSIBILITY TO PROVIDE UNIFORM POLICY DIRECTION TO IMPLEMENT THIS WHITE HOUSE POLICY ACROSS ALL AGENCIES. MR. CHAIRMAN, THIS WILL BE INCLUDED AS ONE FEATURE OF THE UNIFORM PROCUREMENT SYSTEM PROPOSAL WHICH WE WILL SUBMIT TO CONGRESS NEXT MONTH. THIS POLICY IS MORE APPROPRIATE THAN 390 (b) THROUGH (d) AND MUCH EASIER TO ADMINISTER. PLEASE NOTE THAT IT COVERS ALL TECHNOLOGY NOT JUST PATENTABLE INVENTIONS. THEREFORE, CONSIDERATION SHOULD BE GIVEN TO DELETING THIS PROVISION.

I ALSO RESPECTIVELY SUBMIT THAT SECTION 11, WHICH AMENDS TITLE 35 U.S.C., TO ESTABLISH THE PATENT AND TRADEMARK OFFICE AS AN INDEPENDENT AGENCY SHOULD BE DELETED. MR. CHAIRMAN, AS YOU COGENTLY STATED IN YOUR DISSENT TO THE JUDICIARY COMMITTEE

REPORT ON H.R. 6933, AND AS SECRETARY OF COMMERCE KLUTZNICK TESTIFIED YESTERDAY, THE CASE HAS NOT BEEN MADE TO SEPARATE THE PATENT OFFICE FROM THE DEPARTMENT OF COMMERCE. TAKING THE PATENT OFFICE OUT OF COMMERCE WILL NOT ENHANCE ITS EFFICIENCY OR IMPROVE ITS SERVICES TO THE BUSINESS COMMUNITY AND THE PUBLIC. IT WOULD, HOWEVER, REQUIRE MORE FUNDS, AS THE SERVICES PROVIDED BY COMMERCE WOULD NO LONGER BE AVAILABLE.

THE DEPARTMENT OF COMMERCE HAS A CLEAR ROLE IN PROMOTING INDUSTRIAL INNOVATIONS AND SPONSORING, WITH OTHER AGENCIES AND INDUSTRY, AREAS OF SCIENCE AND TECHNOLOGY WITH POTENTIAL FOR COMMERCIAL DEVELOPMENT.

WITH THESE CHANGES, MR. CHAIRMAN, THE ADMINISTRATION SUPPORTS ENACTMENT OF H.R. 6933.

BEFORE I CLOSE MY STATEMENT MR. CHAIRMAN, I WANT TO EMPHASIZE THAT, WHILE THIS IS IMPORTANT LANDMARK LEGISLATION, IT IS NOT THE END OF THE CONSIDERATION OF PATENT POLICY IN GOVERNMENT CONTRACTING. OFPP, IN IMPLEMENTING THE UNIFORM PROCUREMENT SYSTEM UNDER P.L. 96-83, WILL CONTINUE TO ASSESS APPROPRIATE LEGISLATION, POLICY, REGULATIONS, AND PRACTICE WITH REGARD TO ALLOCATION OF RIGHTS TO PATENTS RESULTING FROM FEDERAL SPONSORSHIP OR SUPPORT OF RESEARCH AND DEVELOPMENT.

MR. CHAIRMAN, THAT CONCLUDES MY STATEMENT. I WILL BE GLAD TO ANSWER ANY QUESTIONS YOU OR OTHER MEMBERS OF THE SUBCOMMITTEE HAVE.

THANK YOU.

Mr. BROOKS. Unfortunately, Congressman Dingell was unable to be here to testify on the bill, but, without objection, his statement will be included in the record.

Congressman John Dingell has represented the 16th District of Michigan since 1955. He is a graduate of Georgetown University and Georgetown Law School and is a veteran of World War II. Congressman Dingell is the distinguished chairman of the Subcommittee on Energy and Power of the House Committee on Interstate and Foreign Commerce.

Without objection, his statement will be included in the record at this point.

[Mr. Dingell's prepared statement follows:]

STATEMENT OF JOHN D. DINGELL
CHAIRMAN
SUBCOMMITTEE ON ENERGY AND POWER
AT HEARINGS ON H.R. 6933
September 17, 1980

Mr. Chairman, I appreciate the opportunity to briefly testify before this distinguished Committee on H.R. 6933. The bill significantly affects matters within the jurisdiction of the Committee on Interstate and Foreign Commerce in general and my Subcommittee in particular. My concern about the bill centers largely on sections 6 and 7, although I also personnally do not think it wise or necessary to establish the Patent Office as an independent agency. As I understand it, Section 6 of the bill seeks to establish a uniform patent policy for the Government by adding the Government Patent Policy Act of 1980 to title 35 of the United States Code and section 7 repeals a number of laws relating to patent policy.

Section 7 applies to "contract inventions" which "are

inventions made in the course of or under Federal contracts." Federal contractors must file with the responsible agency "timely" reports on "each contract invention" containing technical disclosure of the invention and a list of any country, including the United States, where the contractor elects to file a patent application on the invention. In order to allow the contractor time to file patent applications on the invention, the Government agrees not to make public this report for up to one year.

The term "agency" means an Executive agency, as defined in section 105 of title 5 of the United States Code which appears to cover all Federal agencies, instrumentalities, and corporations, including the Department of Energy, the Department of Transportation, and the Environmental Protection Agency. Because of a provision in section 173 of the Energy Security Act, it does not appear to directly affect the United States Synthetic Fuels Corporation established by that Act passed only a few weeks ago, although that is not totally clear.

The "responsible agency" is the Government as the party contracting for certain activities. It curiously does not include the Tennessee Valley Authority. The term "contract" means a Federal contract, cooperative agreement, or grant for research and development substantially funded by the Government, other than price or purchase supports, loans, or guarantees. Here a question is raised whether a Federal grant of less than 50 percent for research is "substantially funded" by the Government. If not, then what law will govern inventions arising out of such grants?

Under section 9 of the Federal Nonnuclear Research and Development Act of 1974, title to inventions made in connection with a DOE contract vests automatically in the United States. Provisions are included for waiver of this requirement. Under this bill, the title vests in the contractor.

The bill tries to distinguish between contractors by establishing different rules for "small businesses and non-profit organizations", which can include substantial

corporations and such institutions as M.I.T, and so-called "other contractors" which include Exxon, Gulf, Du Pont, Monsanto, TRW and many other corporations. In the case of small businesses and non-profit organizations, title vests in the contractor when a patent application is filed. In the case of all other contractors, title vests for 4 1/2 years and an exclusive license is guaranteed in whatever fields the contractor selects for the 17 year life of the patent.

The bill requires that the Office of Federal Procurement Policy must issue regulations including a standard patent clause. The effective date of the new Act is delayed 7 months presumably for this purpose.

The Committee on the Judiciary's September 9, 1980 report on this bill states that the Government "is bearing an ever increasing share of the burden of financing basic research and development." The report continues:

> "This means that the effective commercialization of government financed research is becoming an

ever more important issue for those who are concerned with industrial innovation. The patent policies governing the utilization of government funded research will become even more important when the research expected to flow out of recent Congressional enactments such as the Energy Security Act of 1980 begins to produce usable new technologies. It is highly likely that the fuel which powers our automobiles and the boilers which heat our homes will owe part of the chemical composition or mechanical operation to patented research developed in part by government funds. At the present time U.S. companies desiring to use government funded research to develop new products and processes must confront a bewildering array of 26 different sets of agency regulations governing their rights to use such research. This bureaucratic confusion discourages efficient use of taxpayer financed research and development."

However, the report fails to note that the common thread that runs through these laws is that the public, not the contractor, should get the fruits of the research and development it funds with the taxpayer's money. If there is confusion, why not make this policy uniform rather than reverse this policy in favor of the contractor and not the public?

Section 9 of the Nonnuclear Act is repealed by this bill, as is section 152 of the Atomic Energy Act of 1954, section 106(c) of the National Traffic and Motor Vehicle Safety Act of 1966, and section 5(d) of the Consumer Product Safety Act. These laws are within the jurisdiction of our Committee or directly affect matters within our jurisdiction. Yet no one on the Judiciary Committee has consulted us about the wisdom or effect of such repeals.

The repeal of this section of the Nonnuclear Act directly affects the Synthetic Fuels Corporation fathered by Senator Jackson and Congressman Moorhead of Pennsylvania and nurtured by the Majority Leader of the House. Section 173(f) of the Energy Security Act specifies

that any contract entered into by the Corporation under subtitle E which relates to the construction and operation of synthetic fuel projects is subject to section 9(a) through (m) of the Nonnuclear Act. The effect is to have no patent provisions apply to these contracts. They are not research and development contracts. Thus, this new Act would not apply to them. Obviously, that is not a sound result.

Another problem is that the DOE enters into contracts for demonstrations. The Nonnuclear Act specifically refers to demonstrations. The new law does not. Thus, demonstration contracts, such as the ill-fated Coalcon project contract, would not have a patent provision. Yet inventions result from such contracts. Again that is not a sound result.

More importantly, why repeal the Nonnuclear Act. It is uniform for the energy agencies. The DOE, which is the largest civilian contracting agency in the Government, has not had trouble with its money spigot. Contracts continued to be executed. There does not appear to be any evidence that potential contractors will not enter into

research and development contracts because of the Nonnuclear Act.

Possibly, this new policy may be sound for NASA or the Department of Defense. But it is not appropriate for other missions of the Government in such areas as health, safety, the environment, and energy. At least, it should not be adopted without our Committee and other Committees with jurisdiction over such matters considering the impact of such legislation on these important national programs. In this regard, I point out that in 1969, after the death of 78 coal miners in West Virginia, the Committee on Education and Labor adopted for Coal Mine Safety a provision similar to the Nonnuclear Act. It was continued in 1977 by that Committee's amendments to broaden that Act to non-coal mines. This bill repeals it. One must ask why?

I strongly urge that this Committee reject this new policy, at least in the case of these non-NASA and Defense missions. It is in my judgment a give-away to the contractors with no clear-cut benefit to the public interest and indeed it may be detrimental to the public interest in areas such as energy, health, safety, and the environment. I strongly this bill for these reasons and intend to make my views known to others in the House.

Mr. BROOKS. This concludes our hearings on H.R. 6933. At this point, I would like to ask unanimous consent to include in the record a letter which the subcommittee has received from Ralph Nader on the subject of this legislation.

[The letter follows:]

SEPTEMBER 15, 1980.

Congressman JACK BROOKS,
Chairman, House Government Operations Committee,
Washington, D.C.

DEAR CONGRESSMAN BROOKS: H.R. 6933, which is now before your Subcommittee on Legislation and National Security, would allow a single company to monopolize a product or process invented with public funds. Extensive hearings held by the Monopoly Subcommittee of the Senate Small Business Committee over many years demonstrated that this policy would be injurious to the public interest. Witnesses at these hearings, which started as far back as December 1959, included distinguished economists, a Deputy Attorney General of the United States, an Assistant Attorney General in charge of the Antitrust Division of the Justice Department, two Chairmen of the Federal Trade Commission and former staff members of the Council of Economic Advisors.

Without any exception these witnesses testified that when a private company finances its own research and development, it takes a risk and deserves exclusive right to the fruits of that risk. Government research and development contracts, however, are generally cost-plus with an assured market—the U.S. Government. There is, thus, absolutely no reason why the taxpayer should be forced to subsidize a private monopoly and have to pay twice: first for the research and development and then through monopoly prices. When a contractor hires an employee or an agent to do research for him, the standard common law rule is that the contractor gets the invention. Surely the Government should have no less a right!

In addition to the problem of equity, economic growth and increased productivity require the most rapid dissemination of scientific and technical knowledge. Allowing private firms to file private patents would do just the opposite. Filing for a patent application is a secret matter, and technical information connected with the patent is not disclosed until the patent is granted, which takes an averge of 3½ years. H.R. 6933 would prohibit the Government from releasing a report for a minimum of one year from the final disposition of rights. In other words, instead of rapid disclosure, information is really bottled up for that length of time, depriving the scientific, technical, and manufacturing communities of information which could save economic resources by preventing duplication and could also save lives if the product or process is in the field of health.

If a policy making technological advances available to all without charge were adopted and maintained for a considerable period, other things being equal, it would make a positive contribution to the efficiency of the economic system and the rate of growth according to Dr. Lee Preston.[1]

Nobel prize winner Dr. Wassily Leontief, the developer of the input-output techniques and analysis, testified in 1963 that a government-wide policy whereby the results of research financed by the public would be freely available to all would increase the productivity of labor and capital, and estimated that the difference between restrictive (allowing the contractor to retain title) and open patent policies should account for one half of one percent in a 4-to-5[2] percent growth rate of the average productivity of labor. "I have no doubt," he stated, "that an open door policy in respect to inventions resulting from work done under governmental contract would speed our technological progress considerably."[3]

John H. Shenefield, Assistant Attorney General, Antitrust Division, Department of Justice and Michael Pertschuk, Chairman of the Federal Trade Commission, categorically told the committee in December 1977 that there is no factual basis for the claims that giving away title to private contractors promotes commercialization of government-financed inventions and that the available evidence shows just the opposite. They also stated that even if an exceptional circumstance arises—and no specific example could be found—that would justify a waiver of the government's rights, it should never be done unless the invention has been identified and a study made of the impact of the waiver on the public interest. In addition, such proposals

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[1] Economic Aspects of Government Patent Policy: Hearings of Monopoly Subcommittee of Senate Small Business Committee, 249 (1963) (testimony of Dr. Lee Preston, then Prof. of Bus. Admin., U. of Cal., Berkeley and former staff economist of Council of Economic Advisers).

[2] The growth rate has declined since then.

[3] Id. at 251 (testimony of Dr. Wassily Leontief).

as "march-in rights" would be ineffective and valueless to protect the public against patent misuse.[4] Yet the present bill relies heavily on such "march-in rights" to protect the public.

Besides, a patent cannot protect a small firm against market incursions of a large firm. Because litigation is so expensive, large firms have infringed with impunity patents held by small firms. A patent may protect a small firm from the competition of other small firms, an objective which may not be the desired goal of this bill.

Government patent policy is not a patent problem at all; it is not concerned with the mechanics of securing a patent or the administration of the Patent Office. It involves simply the disposition of public property rights arising out of the huge expenditures of public funds—about thirty billion dollars annually—and it is dismaying to find that the same old claims—discredited years ago—to justify the giveaway of Government's rights are still being made today as in H.R. 6933.

H.R. 6933 would wipe out every law on the books which reserves for the public the results of the research it pays for. Even the small business window dressing of the bill cannot hide the fact that this bill would, if enacted, constitute a blatant and colossal giveaway of the Government's rights without any demonstrated benefits to the public.

I should appreciate it if you would include this letter in the printed version of the hearings.

Sincerely,

RALPH NADER.

Mr. BROOKS. In addition, the subcommittee has written to the chairmen of those committees who have jurisdiction over legislation that would be amended by section 7 of H.R. 6933. We have received one such letter from the Honorable Morris Udall, chairman of the Committee on Interior and Insular Affairs. I ask unanimous consent that his letter and other letters which we receive from other committee chairmen be included as part of the hearing record.

[The material follows:]

[4] Government Patent Policies: Hearings before Senate Small Business Committee 189, 192 (1977) (testimony of John H. Shenefield); id. at 245–46 (testimony of Michael Pertschuk).

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September 15, 1980

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HOUSE COMMITTEE ON
GOVERNMENT OPERATIONS

The Honorable
Jack Brooks
Chairman
Committee on Government Operations
U.S. House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

Thank you for your letter of September 10 concerning your pending consideration of HR 6933 -- "The Government Patent Policy Act of 1980."

As a general policy, I believe that most Members of the Committee on Interior and Insular Affairs would agree that when Federal funds are provided under contract for research and development, the information and resulting developments should remain available to the public and should not create an exclusive right or interest in any person. While there may be special instances or circumstances where this policy should be waived to accomplish a needed objective, they should be carefully screened and limited in scope.

It seems totally unreasonable for the Government to provide funds for research -- in some cases millions of dollars -- leading towards a new or improved technology and then permit those who sought and accepted the Federal assistance to receive an exclusive right and benefit from their subsidized efforts. Nothing in present law, in any way, prevents anyone from conducting such research and development efforts privately with their own funds and pursuing their findings to patent, but when they accept Government funds for such work, they should recognize that they must share the fruits of their labor.

While I cannot speak for the Committee on Interior and Insular Affairs on the merits of HR 6933, I, personally, would not support general legislation waiving the United States Government interest in research and development contract programs. I regret that your Committee must consider this important matter under such severe time constraints. It is unfortunate that all affected legislative committees have not previously been consulted regarding the affect of the bill on measures which they have developed over the years.

Specifically, I feel that the provisions of law affected by HR 6933 which come within the jurisdiction of the Committee on Interior and Insular Affairs should remain in effect until a careful review and evaluation can be made of the ramifications of such a change in policy. I cannot imagine that such a severe policy change is required at this late point in time and I would hope that all affected Committees would have an opportunity to consider the impact of such a policy on measures within their respective jurisdictions.

Hoping that this letter is responsive to yours, I am

Sincerely,

Mo Udall

MORRIS K. UDALL
Chairman

September 23, 1980

Honorable Jack Brooks
House of Representatives
Washington, D. C.

Dear Jack:

Thank you for your letter of September 11th requesting our comments on provisions in H.R. 6933, ("The Government Patent Policy Act of 1980"). Specifically, H.R. 6933 would repeal Section 302(e) of the Appalachian Regional Development Act of 1965, and would amend Section 5(i) of the Tennessee Valley Authority Act of 1933.

Without focusing on the question of what the public policy should be regarding patents on inventions produced with government funds, we are concerned about possible technical problems that may result by repealing Section 302(e) of the Appalachian Regional Development Act. This section provides guidance and direction to the Appalachian Commission not only for patents but also for copyrights. Should this section be repealed and the Appalachian Regional Commission does not come within the term of "agency" as defined by H.R. 6933, it would have no guidance or protection under any Federal law regarding patents and copyrights. Because of the uncertainties in the repeal of this section, the committee feels that more careful study is needed.

Our committee does expect to review and amend the Appalachian Regional Development Act early in the next Congress and would expect to give this section, as well as other provisions of the Act, greater attention at that time.

In regard to the provisions in the bill affecting the Tennessee Valley Authority Act, we believe technical changes are needed for clarification.

Please advise if we can be of any further assistance.

Sincerely,

Signed by Harold Johnson, Chairman, Committee on Public Works and Transportation.

MAJORITY MEMBERS
CARL D. PERKINS, KY., CHAIRMAN
FRANK THOMPSON, JR., N.J.
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THOMAS E. PETRI, WIS.

CONGRESS OF THE UNITED STATES
HOUSE OF REPRESENTATIVES
COMMITTEE ON EDUCATION AND LABOR
2181 RAYBURN HOUSE OFFICE BUILDING
WASHINGTON, D.C. 20515

TELEPHONES:
MAJORITY—225-4527
MINORITY—225-3725

September 17, 1980

The Honorable Jack Brooks, Chairman
Committee on Government Operations
U. S. House of Representatives
Washington, D. C.

Dear Mr. Chairman:

I am grateful for your courtesy of informing me of the proposal in H. R. 6933, the Government Patent Policy Act of 1980, to delete Section 501(c) of the Federal Coal Mine Health and Safety Act of 1969, 30 U.S.C. 951(c).

The language proposed to be stricken from Section 501(c) was seriously considered and extensively debated during our consideration of the Federal Coal Mine Health and Safety Act. It is the feeling of our Committee that the provision was sound policy then, and that it remains sound policy today. I hope that the Committee on Government Operations will support the position against reversal of the long-standing policy that, generally, patents produced at government expense should become public property.

It is to be regretted that the Committee on the Judiciary took such precipitious action without alerting either of our Committees as to their intentions in this regard.

Always my best,

Sincerely,

Carl D. Perkins
Chairman

RECEIVED
SEP 17 1980
HOUSE COMMITTEE ON
GOVERNMENT OPERATIONS

cc: The Honorable Peter Rodino,

NINETY-SIXTH CONGRESS

JOHN D. DINGELL, MICH., CHAIRMAN

HARLEY O. STAGGERS, W. VA.
(EX OFFICIO)

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PHONE (202) 225-4856

CONGRESS OF THE UNITED STATES
HOUSE OF REPRESENTATIVES
SUBCOMMITTEE ON ENERGY AND POWER
OF THE
COMMITTEE ON INTERSTATE AND FOREIGN COMMERCE
WASHINGTON, D.C. 20515

September 26, 1980

RECEIVED
SEP 29 1980
HOUSE COMMITTEE ON
GOVERNMENT OPERATIONS

The Honorable Thomas P. O'Neill, Jr.
Speaker
U. S. House of Representatives
H205 The Capitol
Washington, D. C. 20515

Dear Mr. Speaker:

It is my understanding that the leadership has scheduled H.R. 6933, the patent and landmark law amendments, to be considered on Tuesday, September 30 on suspension.

The bill affects matters within the jurisdiction of the Committee on Interstate and Foreign Commerce. I have testified against the bill before the Committee on Government Operations. It is very controversial. I intend to offer amendments to that bill when it is considered on the House Floor. Placing it on Suspension would preclude that and would jeopardize its passage in the House. I respectfully urge that it not be considered on suspension, but rather it be granted an open rule.

Sincerely,

John D. Dingell
Chairman

JDD:Frn

cc: The Honorable Jim Wright, Majority Leader
U.S. House of Representatives

The Honorable Peter W. Rodino, Jr., Chairman
Committee on the Judiciary

The Honorable Jack Brooks, Chairman
Committee on Government Operations

Mr. BROOKS. I want to remind the members that the subcommittee will meet tomorrow morning at 9:30 in room 2154 to mark up H.R. 6933 and H.R. 7893, the Inspector General Act Amendments of 1980, and to consider two oversight reports.

The meeting stands adjourned.

[Whereupon, at 10:25 a.m., the subcommittee adjourned, to reconvene subject to the call of the Chair.]

APPENDIX

Material and Correspondence Submitted for the Hearing Record

THE SECRETARY OF COMMERCE
Washington, D.C. 20230

September 17, 1980

The Honorable Jack Brooks
Chairman
Committee on Government Operations
U.S. House of Representatives

Dear Jack:

During yesterday's hearings on H.R. 6933 you asked me for examples of government agencies' exercise of march-in rights. In view of the tight time schedule under which your Committee is operating, I have not attempted an exhaustive study of practices throughout the federal government. I can, however, report the following.

Over the past twenty years, NASA probably has been the most important federal agency, apart from the Defense Department, from the point of view of high technology research and development. Unlike the Defense Department, which automatically gives title to most defense contractors, NASA operates under a statutory policy which presumes that title will belong to the government but which permits waiver of title to the contractor.

Yesterday afternoon, a member of my staff discussed NASA's experience with Mr. Robert F. Kempf, NASA's assistant general counsel for patent matters. NASA has collected data covering the twenty-one year period from January 1, 1959 through December 31, 1979. Although NASA commenced operations on October 1, 1958, it is believed that no patent waivers were processed in those first three months.

During this period, patent title was waived to the contractor in 1,528 cases, representing 65% of the contractor requests for waiver of title. During the same period, NASA obtained periodic reports from contractors on invention commercialization. As a result of these reports, action was taken to void the waivers in 342 cases. Thus, patent title was taken back from contractors in 22% of the cases in which title earlier had been waived. Contractors have not contested NASA's take backs.

The NASA experience thus has been that actual exercise of its march-in right is not required to police the field effectively. It has been sufficient that the march-in right exist. In the face of that right, contractors have consented to the voiding of waiver of title at NASA's request.

68-957 O—80——10

We expect our experience in this regard under H.R. 6933 would be similar to NASA's. Moreover, the march-in right contained in H.R. 6933 is substantially stronger than that now existing. The H.R. 6933 march-in right contains a competition-based antitrust standard which gives a contractor's competitors a basis for challenging the contractor's exclusive rights. In addition, I can assure you that, to the extent the Department of Commerce becomes the government agency responsible for the licensing of government-owned technology and for enforcing federal march-in rights, we shall not hesitate to take back title or other exclusive rights as may be appropriate.

If I may, I should like to supplement my remarks of yesterday.

First, with respect to the Judiciary Committee amendment to H.R. 6933 which would make the Patent and Trademark Office an independent, sub-cabinet agency, may I note certain changes in the current text of the bill which should be made in connection with deleting the amendment.

Of course, section 11 of the current version of the bill should be eliminated. In addition, in order to undo the amendment and retain the Commerce Department role, the following references to the Commissioner of Patents should be changed to the Secretary of Commerce. This merely restores the original language of H.R. 6933.

1) Page 2, line 20;

2) Page 6, line 18;

3) Page 7, line 24;

4) Page 8, line 19;

5) Page 9, lines 1, 16, 17, and 20;

6) Page 10, lines 2 and 7;

7) Page 27, line 18;

8) Page 33, line 15; and

9) Page 42, line 17.

Second, I should like to comment upon Admiral Rickover's contention that his experience proves the lack of any need for contractors to have exclusive commercial patent rights. Admiral Rickover has been successful in obtaining the research and development and manufacturing work he needs for the naval nuclear propulsion program. However, he deals with an area where the only customer is the government. There is no private sector market. When the government is the only customer, contractors have no need for patents.

However, while Admiral Rickover has had little difficulty in obtaining contractors, there has not been any significant public use outside of the naval nuclear propulsion program. Our nation's need is for greater public benefit from technology developed with federal support. We need to improve the international competitiveness of U.S. industry. While the policy Admiral Rickover advocates may permit him to run his own program, it does nothing to promote the broader public use we need.

If patents ordinarily were readily available to the public in new products and processes without further substantial investment and risk, then I would agree with Admiral Rickover that section 6 of H.R. 6933 was unnecessary. As I tried to show in my testimony, the opposite is the case.

Thus, if the public is to benefit from technology developed with federal support by having access to commercial products and processes which make use of the invention, either the government or private enterprise must invest the money, make the effort, and take the risk. I do not think you or I want the government to go into business competition with the private sector. Therefore, the job must be done by the private sector.

In most every case, a private company will not make the necessary investment without some assurance that, if successful, it will be able to earn a fair return. The exclusive license provides that assurance.

In Admiral Rickover's own program, the lack of commercialization, apart from the government customer, is ample evidence that such commercialization generally will not take place without patent protection. This is why, in my testimony, I said that what Admiral Rickover calls making an invention "available for all citizens without any limitations" is illusory because the patent will not be used without exclusivity.

The difference between the government and private enterprise explains why Admiral Rickover is mistaken in citing against the bill the example of private industry where "the company that subcontracts for research and development generally receives the patent rights to any invention growing out of that work." It generally receives the patent rights because it generally will attempt to commercialize them. While the public interest dictates, and H.R. 6933 provides, that the government should have rights in the patent -- including the royalty-free right to use the invention itself -- the public interest in being able to use new products and processes embodying the invention dictates that the contractor be permitted an exclusive license in whatever field of use it will develop and make publicly available.

I very much appreciate your interest in these important subjects, and the opportunity to express my views. With best wishes,

Cordially,

Philip A. Hart

McGraw-Hill, Inc.

1221 Avenue of the Americas
New York, New York 10020
Telephone 212/997-2477

Dan Lacy
Senior Vice President

RECEIVED
SEP 23 1980
HOUSE COMMITTEE ON
GOVERNMENT OPERATIONS

September 17, 1980

RECEIVED
SEP 23 1980
Legislation and National
Security Subcommittee

Congressman Jack Brooks
Chairman
Committee on Government Operations
House of Representatives
Washington, D. C. 20515

Dear Mr. Chairman:

I am grateful for the opportunity to submit the following statement to the Committee on Government Operations in connection with HR6933 now pending before your committee. Section 9 in the bill, among other things, would mandate a study by the General Accounting Office of the operations of the Copyright Office, particularly with a view to its possible separation from the Library of Congress and its possibly being joined with the Patent Office in a new independent agency.

I know from long experience with both the Library of Congress and the Copyright Office, stretching back more then thirty years, how essential to the operations of both the Library and the Copyright Office is their present relationship. The Library of Congress is dependent on the Copyright Office not only for the addition of the deposited copies of the copyright works to the collections of the Library, but also for the important cataloging and bibliographical assistance derived from the office's catalogs and records. Similarly, the employees and users of the Copyright Office are heavily dependent on the bibliographical resources of the Library of Congress. Indeed one can date the real effectiveness both of the Library and the Copyright function from their union in 1870 when their mutual reinforcement began. To separate them should be unthinkable.

If they are not to be separated, the principal reason for the proposed expensive and time-consuming General Accounting Office study would be removed. But beyond that, such a study, I believe, would be ill advised at this time. The problems of the Office have been thoroughly studied not once but twice within the last two or three years by teams from outside the Copyright Office. The management of the Copyright Office

knows what the problems are. We do not need another study of them; we need an opportunity for the Register of Copyrights to solve them. David Ladd, the recently appointed Register of Copyrights, is a man of extensive experience and of proven executive ability. It is very important that he have an uninterrupted opportunity to achieve the organizational and procedural improvements, the need for which was demonstrated by the earlier studies.

It is possible that a further study would be useful two or three years from now after the Register has had that opportunity; at the present time I believe that it can only be harmful. I would hope very much that the Committee would be prepared to propose either the deletion of Section 9 of the bill or the elimination of the Copyright Office from its purview.

Respectfully yours,

jn

RECEIVED

SEP 15 1980

Legislation and National Security Subcommittee

AEROSPACE INDUSTRIES ASSOCIATION OF AMERICA, INC

1725 DE SALES STREET, N.W., WASHINGTON, D.C. 20036 TEL 347-2315

OFFICE OF THE PRESIDENT

September 15, 1980

The Honorable Jack Brooks
Chairman, Committee on Government Operations
U. S. House of Representatives
2449 Rayburn House Office Building
Washington, D. C. 20510

Dear Mr. Chairman:

Aerospace Industries Association is the national trade association representing the manufacturers of aircraft, missiles and spacecraft, their power plants and components. We appreciate the opportunity to present our views on the proposed Federal patent policies of H.R. 6933.

Many years of experience of our member companies in advancing high technology and answering our nation's needs in aerospace have led to the conclusion that there is a need for a single Federal Patent Policy to be uniformly administered by all Federal agencies. To make maximum use of the incentives inherent in the United States Patent System and thus to be most effective in encouraging competition by competent firms for Government research and development contracts and industrial innovation of inventions made under such contracts, such a policy should place at least an option in the contractor to retain title to inventions made in the contractor's performance of the research and development effort under Government contracts. It must be borne in mind that the contractor and the Government receive the same consideration for the performance of a Government research and development contract whether or not any patentable inventions are made. Thus, inventions are purely incidental to contract performance and the real issues are reduced to the question of whether the Government or the contractor is entitled to such inventions and which can bring such inventions to public use in the commercial markets.

We have examined the patent policies proposed in H.R. 6933, particularly those dealing with the allocation of rights to inventions to contractors other than small business and universities, and repayment. To our mind, such provisions would not achieve the above enumerated objectives of fostering competition for Government research and development contracts and industrial innovation to bring inventions made under such contracts to the public. Accordingly, we urge their rejection.

In the past we have filed Statements on H.R. 6933 and other proposed patent legislation expressing AIA's views in greater detail. These are attached for your review and reference.

We respectfully request that this letter and its attachments be made a part of the record of the hearings on H.R. 6933 before the House Committee on Government Operations being held on September 16 and 17, 1980.

Very truly yours,

Karl G. Harr, Jr.

AEROSPACE INDUSTRIES ASSOCIATION OF AMERICA, INC.

OF THE PRESIDENT

August 19, 1980

The Honorable Robert W. Kastenmeier
2232 Rayburn House Office Building
U.S. House of Representatives
Washington, D. C. 20515

Dear Congressman Kastenmeier:

The Aerospace Industries Association of America, Inc., (AIA) is the national trade association representing the manufacturers of aircraft, spacecraft and missiles, as well as their engines and other components.

On June 17, 1980, a statement representing the views of AIA on H.R. 6933 was transmitted to you as Chairman of the Subcommittee on Courts, Civil Liberties and the Administration of Justice of the Committee on the Judiciary. That letter expressed our view, that the bill failed to fully utilize the incentives of the patent system, would not stimulate industrial innovation, and, in many cases, was legally unworkable. Accordingly, we urged that H.R. 6933 be rejected.

We now have in hand a clean version of H.R. 6933. To the extent that the provisions are the same, our previous comments apply equally to the clean bill. In addition, however, we would like to comment on several provisions added for the first time to the clean bill, specifically those treating with royalties/revenue sharing, and temporary title in contractors, other than small business and non-profit organizations.

Turning first to Subsection 390 which deals with royalties/revenue sharing, we respectfully submit that it is impossible to determine the intent of Congress from these provisions because they are so vague and ambiguous and, hence, they do not meet the test of a valid constitutional delegation of power. By way of example, subsection (d) fails to identify the base for the royalties/revenue sharing. Subsection (c) refers to "...payments set forth in subsection (a) of this section", but subsection (a) does not include any "payments" provisions. Subsection (c)(2) speaks of the "...Federal Government's contributions...compared with private investment...". Is the "Government's contribution" to be made by other than "funding of research and development", as might be surmised from subsection (b)? Is "private investment" limited to the contractor or the private sector? In summary on this point, most, if not all, of Section 390 is so vague and ambiguous as to be impossible to implement.

Assuming, for present purposes only, that Section 390 could be implemented, it is respectfully submitted that the section is not a recoupment of the Government's investment in research and development (note the absence of any ceiling on royalties/revenue sharing), but instead is a consumer tax to be ultimately paid by the public.

Under Section 384 of the clean bill, a contractor, other than small business, has a temporary title to a contract invention for a four and one-half year period which commences with the reporting of the invention. Since it would not be unusual for three and one-half years to pass between the reporting of the invention and the issuance of a patent, the practical effect is that a contractor would probably have the benefits of holding title for approximately a year or even less. Moreover, it is entirely possible that the four and one-half year period of temporary title could expire before the issuance of the patent.

It is extremely difficult to predict with any degree of certainty the field of use in which an invention may be commercially successful over the term of the patent. Therefore, during the four and one-half year period, the contractor has the difficult, if not impossible, task of selecting fields of use in which to practice the invention. This is especially true where the contractor is a multi-division corporation engaged in diverse technologies.

Upon selecting a field of use, temporary title terminates and by operation of law the contractor may be granted an exclusive license in a particular field of use. If the contractor is not granted such an exclusive license, then by operation of law he receives a non-exclusive royalty-free license to practice the invention. The Government, however, has the right to revoke this non-exclusive license to the extent necessary to grant exclusive licenses to a third party. Thus, it is conceivable that a contractor may make and develop an invention at considerable expense and then be prohibited from practicing it, should the Government grant an exclusive license to the contractor's competitor.

The clean version of H.R. 6933 also includes a foreign march-in rights provision which would allow the Government to terminate the contractor's foreign patent rights in favor of a third party. Unless there are adequate safeguards to assure a contractor that he will not be ultimately deprived of his own invention at home or abroad in favor of a third party, innovative contractors will be discouraged from seeking Government contracts.

In view of the foregoing, we respectfully urge that the clean version of H.R. 6933 be rejected.

Very truly yours,

S. L. Wright

for Karl G. Harr, Jr.

AEROSPACE INDUSTRIES ASSOCIATION OF AMERICA, INC

1725 DE SALES STREET N.W. WASHINGTON, D.C. 20036 (202) 429-[illegible]

OFFICE OF THE PRESIDENT

June 17, 1980

The Honorable Robert W. Kastenmeier
2232 Rayburn House Office Building
U.S. House of Representatives
Washington, D.C. 20515

Dear Congressman Kastenmeier:

The Aerospace Industries Association of America, Inc. (AIA) is a national trade association which represents the manufacturers of aircraft, spacecraft and missiles as well as the power plants and other related components.

The attached statement expresses the views of our member companies on H.R. 6933 which would establish a Federal patent policy and other revision to existing patent statutes. We respectfully but strongly urge that H.R. 6933 be rejected and that S. 1215 be enacted into law as promptly as possible.

We respectfully request this letter and the attached statement be included in the record of the hearings on H.R. 6933.

Very truly yours

S. L. Knight

for Karl G. Harr, Jr.

Attachment

STATEMENT OF

AEROSPACE INDUSTRIES ASSOCIATION OF AMERICA, INC.

ON

H.R. 6933

TO THE

SUBCOMMITTEE ON COURTS, CIVIL LIBERTIES,

AND THE ADMINISTRATION OF JUSTICE

OF

COMMITTEE ON THE JUDICIARY

U.S. HOUSE OR REPRESENTATIVES

The Aerospace Industries Association of America, Inc. (AIA) is the national trade association representing the manufacturers of aircraft spacecraft, missiles and related components, and power plants.

AIA member companies have long recognized the incentives of the U.S. Patent System and, in particular, the manner in which such incentives foster the development and advancement of our nation's technological base and industrial innovation. Accordingly, AIA has supported and will continue to support proposed legislation and government policies which best utilize such incentives.

The many years of combined experience of AIA member companies in industrial innovation, corporate diversification and government research and development (R&D) contracting have led to the conclusion that a Federal Patent Policy allocating the rights to inventions made under government research and development contracts should balance the

equities of the parties involved, i.e., the public, the government and the contractors, both large and small. Such a policy should make use of the incentives inherent in the U.S. Patent System, to induce the most competent firms to compete for government research and development contracts, apply the most talented personnel to the performance of such contracts and, where economically practical, commercialize the new technology and inventions which may result from such efforts.

AIA has urged the Congress, the Executive Branch and the Commission on Government Procurement to promulgate a single Federal Patent Policy to replace the several policies in existence. AIA believes that such a policy should make maximum use of the incentives of the patent system by providing that a contractor may retain title to inventions made in the performance of government contracts for research and development (R&D). AIA strongly believes that the real issue, as to the allocation of title to such inventions is whether the government or the contractor is in a better position to assure that new technology and inventions will be brought to public use. Clearly, the contractor has experience in the technology of his patentable inventions. One of the major factors in the government's decision in awarding contracts is the background knowledge and know-how of the successful contractor. Also, the contractor generally has both an existing marketing capability and the profit incentive to commercialize such inventions.

Unless the government contemplates a new role as a competitor to American business in commercial markets, the government has neither the expertise to determine which of the many inventions made under government R&D contracts have a commercial potential nor the capability

(or perhaps even the incentive) to bring such inventions to the marketplace. History has demonstrated that it is rare for other companies to develop marketable products from government-owned patents in any more productive fashion than the contractor who brought the new technology into being in the first place.

Because S. 1215 introduced by Senator Harrison Schmitt, with the bipartisan support of Senators Howard Cannon, Adlai Stevenson and John Warner, would establish such a policy, AIA supports the enactment of S. 1215 into law.

The Administration's proposed Patent Policy, as set forth in H.R. 6933, seeks to improve the present situation of multiple and often ineffective policies by establishing a single policy to be uniformly administered by all federal agencies. It also seeks to minimize, to some extent, the current uncertainties as to the allocation of rights to inventions under government (R&D) contracts. It is respectfully submitted, however, that the proposed policy fails to achieve full utilization of the patent incentives as does S. 1215, and would instead create many problems, both practical and legal.

As to fostering competition for government R&D contracts, the policy proposed in H.R. 6933 proceeds on the false premise that exclusive licenses in selected fields of an identified invention will satisfy "larger" contractors. Such licenses would be based upon a promise by the contractor to commercialize the invention in the selected fields and his filing of a patent application. This concept is apparently based on the conclusion expressed by Dr. Jordan Baruch,

Assistant Secretary for Science and Technology, Department of Commerce on January 25, 1980, in testifying before a joint hearing of the Senate Committee on Judiciary and Commerce, Science and Technology, that "larger" companies are less flexible in diversifying into multiple fields of endeavor. One has only to review the histories of many aerospace companies to recognize the error in such reasoning.

This concept appears also to be based on an assumption that a company, large or small, can predict with any degree of certainty, in which field or fields an invention may enjoy commercial success. With the ever present threat of government bureaucracy standing by to grant exclusive licenses in any field not selected by the inventing company, the concept of such exclusive licensing in selected fields is in most instances less acceptable to industry than current practices.

As to the management of the proposed selected exclusive license policy, it should be noted that a patent generally has utility in many fields. In fact, the proposed policy of H.R. 6933 recognizes this facet of a patent. At present, the Government has title to over thirty thousand patents. It is entirely probable that these patents could find use in hundreds of thousands of fields. Therefore, it is also probable that the management of an "selected exclusive license" policy would require a substantial bureaucracy rather than the small group contemplated by Dr. Baruch. This would bring about a result directly contrary to the stated objective of President Carter to reduce the size of the government bureaucracy and to get the government out of the private sector.

The distinction drawn in this proposed policy between small contractors and nonprofit organizations on the one hand and large contractors on the other indicates that the same patent incentives to innovate and commercialize would not be provided to all contractors. the obvious corollary is the government's view that large contractors need less than the maximum patent incentives to induce such contractors to seek government contracts. This in incorrect. A patent policy under which contractors large or small could retain title would clearly maximize the incentive for all contractors to innovate and commercialize with minimum administrative burden and yet with adequate safeguards as provided by Government march-in rights.

The proposed patent policy also gives rise to several legal problems. For example, it requires that larger contractors file a patent application on an invention even though the government has title to that invention. In many jurisdictions such an action by a business corporation would comprise the unlicensed practice of law and would expose the contractor to possible criminal penalties. It is apparent that contractors legally barred from filing applications would be limited to receiving a non-exclusive license and even that license would be subject to revocation. Clearly, the proposed policy of H.R. 6933 would offer little or no incentive to contractors to even file a patent application in this situation.

The prosecution of a patent application on a subject invention by a larger contractor not having title may also give rise to a conflict of interest. Thus, the contractor might be prosecuting a patent application on a subject matter in which the government has title and

concurrently another application on similar subject matter but in which the contractor has title. Also, that contractor prosecuting an application in which the government has taken title to the invention might later be charged with failure to obtain claims of sufficient scope to cover the invention appropriately, e.g., failure to obtain claims broader than the field or fields selected by such contractor.

Another legal problem presented by the proposed "exclusive license" policy of the Administration is the enforcibility of such an exclusive license. There is a question as to whether the "exclusive license" granted by the government is more illusory than real. Although the H.R. 6933 contains provisions which would authorize an exclusive licensee to bring a legal action to enjoin an infringer, it is extremely doubtful that such provisions would survive judicial examination. A defense of patent invalidity would require the patent owner, the government, to be before the Court in order that a valid judgment might be rendered on the patent. There is nothing in the proposed legislation requiring the government to join in such legal proceeding. Can one envisage the government joining with a larger contractor to obtain an injunction against a smaller or disadvantaged business? In any event, should the government join a larger contractor in seeking injunctive relief to enforce an exclusive license, the government would be in the impolitic position of assisting one member of the public against another.

There are many other vexatious legal problems which could result from the proposed policy. For example, if an exclusive licensee threatens an injunctive action against an alleged infringer who then seeks to bring a declaratory judgment suit to hold the patent (owned by the government) invalid, to what government official should service be made? - would that government accept service? - if not, would mandamus lie? Is the exclusive licensee a necessary party? Should other exclusive licensees in other fields be joined? If an exclusive licensee causes a patent to be exposed to judicial review the result of which is that the patent is held invalid, do the government and other exclusive licensees have a cause of action to recover for economic loss - and against whom?

Another provision to which AIA takes exception and urges its rejection is the inclusion within Section 402(3) of "foreign governments." This provision serves neither the public nor the government and is a negative incentive to - and actually may harm - contractors.

AIA strongly recommends that to preserve common business practices where a contractor retains a license, the contractor should also have the right to grant sublicenses of the same scope to subsidiaries and affiliates within the structure of the contractor's organization and existing licensees whom the contractor is legally obligated to license or to assure freedom from infringement liability.

H.R. 6933 also proposes flexible fees for the filing and prosecution of patent applications and the issuance of patents thereon as well as maintenance fees based on the cost of operating the Patent and Trademark Office (PTO). It is recognized, that the

present fees may require adjustment in light of the current economic conditions. However, the proposed methodology of setting fees provides neither adequate controls nor criteria, and could tend to promote increased bureaucracy.

It must be recognized that any increase in fees, or the initiation of maintenance fees, would tend to preclude small and disadvantaged businesses, as well as individual inventors, from using the patent system to thus enhance the nation's technological base and foster industrial innovation. This requires careful consideration. We respectfully submit that both the flexible fee and maintenance fee provisions be rejected.

The proposed patent policy of H.R. 6933 is apparently intended as a stimulus to industrial innovation. However, it does not reflect the findings of several important studies conducted for the government and which considered our Patent System and industrial innovation.

In 1966, President Johnson established "The President's Commission on the Patent System" and formed a Commission of distinguished representatives from the public academia and the government. That Commission found "... that the Patent System has in the past performed well its Constitutional mandate 'to promote the progress of ... useful arts', "and most importantly, unanimously agreed that "... a patent system today is capable of continuing to provide an incentive to research, development and innovation..." - and that "... no practical substitute for the unique service it renders..." was discovered. It is significant that the Commission included representatives from the

Small Business Administration but the Commission's recommendations did not even suggest the discrimination between smaller and larger businesses, as proposed by H.R. 6933.

In 1968, Harbridge House, Inc., conducted a study sponsored by the Committee on Government Patent Policy, Federal Council for Science and Technology. That study clearly indicates that the major adverse effects of a patent policy in which the government takes title to inventions made in the performance of R&D contracts are "... program delay, loss of participants, diversion of private funds from government lines of research and refusal to use government inventions and research when questions regarding a company's proprietary position are raised..."

Finally, in the final report of the Advisory Committee on Industrial Innovation, dated September 1979 (p. 156) which was established as a part of the Domestic Policy Review at the direction of President Carter, states that "... in the case of universities or private contractor work sponsored by the Government, the members of this Subcommittee recommend that title to the patents should go to the universities or private contractor ..." These findings from industry and government experts are apparently rejected in the Administration's proposed patent policy. Here too, it is noted that no distinction was made as to small or large private contractors.

For the foregoing reasons, AIA respectfully submits that the proposed patent policy of H.R. 6933 would not balance the equities of the parties involved in government R&D contracting and would not

be as effective in fostering competition for such contracts as would S. 1215. We support the concept of S. 1215 under which all contractors would be provided with a maximum incentive not only to invent but to innovate. Accordingly, we recommend that H.R. 6933 be rejected and S. 1215 be enacted into law as promptly as possible in order that the nation may begin to solve the problems now being experienced in connection with declining industrial innovation.

June 15, 1980

AEROSPACE INDUSTRIES ASSOCIATION OF AMERICA, INC.

1725 DE SALES STREET, N.W., WASHINGTON, D.C. 20036 TEL 347-2315

OFFICE OF THE PRESIDENT

May 14, 1980

The Honorable Robert W. Kastenmeier
2232 Rayburn House Office Building
U.S. House of Representatives
Washington, D.C. 20515

Dear Congressman Kastenmeier:

The Aerospace Industries Association of America, Inc. (AIA) is a national trade association which represents the manufacturers of aircraft, spacecraft and missiles as well as the power plants and other related components.

In behalf of those companies, we wish to express the industry's views on H.R. 6934 which would repeal the present Section 117 of Title 17 of the United States Code. We strongly endorse H.R. 6934 and support early legislative enactment of it.

We believe that recognition of, and protection for, the intellectual property rights of a government contractor in whatever proprietary rights form (such as trade secrets, patents and copyrights) is in the public interest. When such intellectual property rights are observed and protected, contractors possessing them are encouraged to use them in the performance of government contracts.

Former CONTU Executive Director Arthur Levine testified before your Subcommittee on April 3, 1980, that H.R. 6934 makes explicit that which is already implicit in the new Copyright Law. Also, a careful review of statements by the Register of Copyrights, as well as CONTU, shows that the new Copyright Law includes and encompasses computer programs. Similar support for computer program protection exists in House and Senate legislative history as well as in the recent reaffirmation by the Copyright Office of its computer program registration practice.

Notwithstanding the foregoing "implicit" copyright protection for computer programs, the new Copyright Law places computer program rights in limbo as of December 31, 1977. This was intended by the Congress until after CONTU had completed its study and made its recommendation to the President and to the Congress.

CONTU recommends repeal of Section 117 in the new Copyright Law so as to properly remove computer program rights from the state of limbo as described above. The AIA concurs with former CONTU Executive Director Levine that H.R. 6934 embodies the recommendations of CONTU on the protection of computer programs by making explicit that which is implicit and by removing computer program rights from the December 31, 1977 suspension in the law.

We request that this letter be entered in the record of the hearings held by the Subcommittee on Courts Civil Liberties and the Administration of Justice of the House Committee on the Judiciary in April 1980.

Very truly yours,

Karl G. Harr, Jr.

STATEMENT

OF

AEROSPACE INDUSTRIES ASSOCIATION OF AMERICA, INC.

ON H.R. 5715

TO THE

SUBCOMMITTEE ON SCIENCE, RESEARCH AND TECHNOLOGY

OF THE

COMMITTEE ON SCIENCE AND TECHNOLOGY

U.S. HOUSE OF REPRESENTATIVES

The Aerospace Industries Association of America, Inc. (AIA) is the national trade association representing the manufacturers of aircraft, spacecraft, missiles and related components, equipment and power plants.

AIA member companies being at the leading edge of high technology have long recognized the incentives of the U.S. Patent System and especially the manner in which such incentives serve to foster the development and advancement of industrial innovation and our nation's technological base. Therefore, AIA has supported and will continue to support proposed legislation and government policies which make maximum use of such incentives.

The combined years of experience of AIA member companies in industrial innovation, corporate diversification and government research and development contracting have lead to the conclusion that a Federal Patent Policy allocating the rights to inventions made under government research and development contracts should balance the equities of the parties involved, i.e., the public, the government and the contractors. Such a policy should

make maximum use of the incentives inherent in the U.S. Patent System to induce the most competent firms to compete for government research and development contracts, apply the most talented personnel to the performance of such contracts and where feasible commercialize the new technology and inventions which may result from such effort.

Turning now to H.R. 5715, AIA endorses the purposes of the bill as stated in Sec. 102 thereof. Moreover, to the extent the bill contemplates that a contractor may retain title to inventions made in the performance of a government research and development contract, we would endorse it. However, we believe that the effectiveness of the proposed legislation would be enhanced if all restraints which operate to preclude the retention of title by the contractor were eliminated from the bill.

AIA also believes that the bill would be much improved by providing that the "march-in rights" would not be applicable to a contractor's invention upon which a patent issued prior to the execution of the contract under which that patented invention was first actually reduced to practice, and which by virtue of that reduction to practice becomes a "subject invention". We believe this provision would correct an otherwise inequitable situation under which a contractor, having invested its own funds in both the conception and constructive reduction of practice of an invention, loses rights therein by virtue of having the invention first actually reduced to practice in the performance of a government contract.

AIA strongly recommends that to preserve common business practices where a contractor retains a license, the contractor should also have the right to grant sublicenses of the same scope to subsidiaries and affiliates within the

structure of the contractor's organization and existing licensees whom the contractor is legally obligated to license or to assure freedom from infringement liability.

The AIA endorses the concept embodied in Sec. 312 which would have the government withhold publication or release to the public of information disclosing inventions for a reasonable time in order to permit the filing of patent applications.

We also believe that the provision of Sec. 313(b)(2)(A) would be improved by deleting in lines 14 through 17 the right in the Government to grant sublicenses to "foreign governments".

AIA also strongly objects to the inclusion in a Federal Patent Policy, on the basis that it would materially reduce the incentives of that policy, any provisions for recoupment by the Government through the sharing of royalties and/or revenues. In this regard it is noted the provisions of Sec. 318 are in no way limited to inventions whether or not patented.

AMERICAN BAR ASSOCIATION

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RECEIVED
SEP 19 1980
Legislation and National Security Subcommittee

September 15, 1980

RECEIVED
SEP 17 1980
HOUSE COMMITTEE ON GOVERNMENT OPERATIONS

Honorable Jack Brooks
Chairman, Subcommittee on Legislation
and National Security
Committee on Government Operations
U.S. House of Representatives
Washington, D.C. 20515

Dear Mr. Chairman:

We understand that your Subcommittee has begun hearings on H.R. 6933, legislation to amend the patent and trademark laws, and offer the following comments.

On behalf of the American Bar Association, we urge you, when considering the bill, to retain the language of Section 11 of H.R. 6933 which separates the Patent and Trademark Office from the Department of Commerce.

The Association's strong support for the independence of the Patent and Trademark Office is evidenced by its February, 1980 House of Delegates Resolution, which states:

> RESOLVED, That the American Bar Association favors enactment of S.2079 (96th Congress) or similar legislation which would recognize that strong patent and trademark systems are vital to the economy of the United States and would favor removal of the U.S. Patent and Trademark Office from the Department of Commerce and would make it a separate and independent agency.

Removing the Patent and Trademark Office from the Department of Commerce would free the PTO from the restraints imposed by its present low priority position within the Department of Commerce. This would not create a new bureaucracy but rather would eliminate an unnecessary layer of bureaucracy which repeatedly has impeded the PTO's efficient operation by barring it from direct communication with the Office of

Management and Budget and Congress.

If the Patent and Trademark Office is separated from the Commerce Department, we point out that the language of Section 9 now proposing a study is unnecessary, there having been no showing to justify any need for such a study. Further study by the Government Accounting Office would needlessly delay this important change and would not provide Congress with additional pertinent information. The desirability of the independence of the PTO has been studied by those who have special expertise and a working familiarity with the PTO for over a decade, and widespread support has been demonstrated to Congress time and again.

On May 18, 1967, during hearings on patent reform legislation before the Senate Judiciary Committee, Robert C. Watson, Commissioner of the PTO during the Eisenhower Administration, urged Congress to make the PTO independent.

In December 1973, the Senate Judiciary Committee heard favorable testimony from representatives of both the public and private sector; fourteen witnesses addressed the subject, and opposition was voiced only by the Department of Commerce.

During hearings held this year by both House and Senate Judiciary Subcommittees, support for the independence of the PTO again was overwhelmingly demonstrated. Enclosed is the May 8, 1980 statement of the ABA on this subject, to the House Judiciary Subcommittee on Courts, Civil Liberties and the Administration of Justice. In addition to the ABA, the proposal was endorsed by the American Patent Law Association, the U.S. Trademark Association, the National Council of Patent Law Associations, the National Small Business Association, and representatives from large and small companies which rely on the assistance of the PTO. Perhaps most telling is the fact that all six former Patent and Trademark Office commissioners testified and expressed their unequivocal support for the independence of the PTO.

We need a reliable, efficient Patent and Trademark Office now. In view of the overwhelming agreement from those most knowledgeable in the subject that the independence of the PTO is necessary to accomplish this goal, we hope you will support legislation which will

separate the Patent and Trademark Office from the Department of Commerce.

Sincerely,

Herbert E. Hoffman

HEH:LBG:tm

Enclosure

cc: All members of the House Committee on Government Operations

P.S. You are urged to study the persuasive and pertinent testimony contained in the hearing record of the January 24 and March 12, 1980 Joint Hearings before the Senate Committees on Governmental Affairs and on the Judiciary on S.2079, the "Independent Patent and Trademark Office Act."

ERRATA

1. Due to last minute subcommittee scheduling problems, presentation of this testimony was deferred until May 8, 1980. Consequently, the cover date is incorrect.

2. There is a pagination error in the testimony. Page 19 is omitted. This should be ignored.

MORTON DAVID GOLDBERG, CHAIRMAN
SECTION OF PATENT, TRADEMARK AND COPYRIGHT LAW

and

ROBERT B. BENSON, IMMEDIATE PAST CHAIRMAN
SECTION OF PATENT, TRADEMARK AND COPYRIGHT LAW

AMERICAN BAR ASSOCIATION

submitted to the

SUBCOMMITTEE ON COURTS, CIVIL LIBERTIES AND THE ADMINISTRATION OF JUSTICE

COMMITTEE ON THE JUDICIARY

U.S. HOUSE OF REPRESENTATIVES

concerning

REEXAMINATION OF PATENTS

ESTABLISHMENT OF THE PATENT AND TRADEMARK OFFICE AS AN INDEPENDENT AGENCY

COPYRIGHT PROTECTION FOR COMPUTER SOFTWARE

April 17, 1980

Testimony before the

Subcommittee on Courts, Civil Liberties and
the Administration of Justice

Committee on the Judiciary

U.S. House of Representatives

April 17, 1980

I am Morton David Goldberg, Chairman of the Section of Patent, Trademark and Copyright Law of the American Bar Association. Mr. Robert B. Benson, my immediate predecessor as Section Chairman, and I are here to testify on three issues: reexamination of patents, establishment of the Patent and Trademark Office as an independent agency, and copyright protection for computer software.

We are appearing as representatives of the entire Association when we address the issues of patent reexamination and the independence of the Patent and Trademark Office. However, my testimony on H.R.6934, the "Computer Software Copyright Act of 1980," is being presented only on behalf of the Section of Patent, Trademark and Copyright Law and does not necessarily represent the position of the American Bar Association itself, since our views on this specific bill have not been submitted to--and therefore have neither been approved nor disapproved by-- the House of Delegates or Board of Governors of the ABA.

I would now like to introduce Mr. Benson, a man who is eminently qualified to testify on the subject of reexamination of patents.

I. REEXAMINATION OF PATENTS

My name is Robert B. Benson of Milwaukee, Wisconsin. I have been practicing Patent Law for over 25 years. I am the immediate past Chairman of the Patent, Trademark and Copyright Law Section of the American Bar Association, and during the last year, I served as Chairman of the Advisory Subcommittee on Patents of the President's Domestic Policy Review on Industrial Innovation. I have also been active in other Bar associations as set forth in the attached biographical sketch. I appear before you today on behalf of the ABA at the request of the President, Leonard Janofsky.

Beginning in the mid 1960's, the United States patent system has been severely criticized because of the high percentage of litigated patents held invalid by the courts and the high cost of patent litigation. As a result of these conditions, there has developed lack of confidence in United States patents and a corresponding reduction in research and development and capital investments to bring promising patented products to the market. Because of this climate, the United States began to lose its worldwide technological leadership. This trend has continued and now we find that the technological leadership in many high technology areas has been transferred from the United States to foreign countries. Last year over 36 percent of the United States patents were issued to foreigners, and in some high technology classifications in the Patent and Trademark Office, over 90 percent of the patents belong to foreigners.

In 1966, President Johnson commissioned a comprehensive study of our patent system to bring forth recommendations to improve our patent system. Among the recommendations of that commission were proposals for improving the quality and reliability of U.S. patents by permitting members of the public to cite pertinent prior art to the Patent and Trademark Office during the examination of patent applications.

President Carter in 1979, expressing concern about the decline in industrial innovation in the United States, ordered a high level Domestic Policy Review of Industrial Innovation. Over 100 lawyers, research directors, inventors and other people from the private sector participated in this study as an advisory committee. The patent subcommittee of that group (which I chaired) concluded that one overriding concern of the users of the patent system was the lack of quality and reliability of the patent grant and that this lack of confidence in the patent system was having a negative impact not only on investment in research and development but on investments needed to bring promising patented products to the market. Our committee also noted that the decline in industrial innovation contributed to the declining rate of productivity in the United States and or balance of payments for manufactured goods. During the last few years, the United States has seen a drastic shift from a substantial positive balance of payments to a significant negative balance of payments in manufactured goods.

The reexamination procedure set forth in H.R.5075 is intended to substantially improve the quality and reliability of the U.S. patents and reduce the amount and scope of patent litigation so that

industry and the public in general will regain confidence in the patent system and thereby encourage greater investment in innovation. However, it is not intended to be a substitution for the present examination system which performs an extremely important function of initially defining the rights of inventors to their patentable invention.

At the time that a patent application is being initially examined, the primary interest in the scope of the resultant patent claims resides with the inventor (or his assignee) and the Patent and Trademark Office. Generally, the mutual efforts of these parties are quite effective in locating the pertinent prior art and applying it to determine the scope of patent protection appropriate to the invention. A very high percentage of the granted patents, as issued, afford an excellent basis for a preliminary business decision, as for example, a decision to expend money on production and sales facilities. In general, the majority of patents granted under the present system afford a good statement of the rights of the inventor based on the prior art found and considered during the prosecution of the application.

Only a small percentage of patents are actually litigated, and of those that are litigated, very few are found to be invalid over patents considered by the Patent and Trademark Office during the prosecution of the patent application. The Patent Office does an excellent job in examining a patent application when it has all of the most relevant prior art before it for review. Unfortunately, the Patent and Trademark Office does not always have all of the pertinent prior art before it when examining patent applications.

This has resulted in patents being challenged in court on the basis of patents and publications that were not considered by the Patent and Trademark Office during the prosecution of the patent application. A relatively high percentage of the patents thus challenged have been declared invalid by the courts. These results have encouraged further challenges of patents on this basis leading to a great deal of expensive and protracted patent litigation. Reports of these cases have precipitated charges questioning the reliability of all patents being granted which in turn has resulted in a decrease in confidence in the patent system itself.

In 1974 this problem, together with a number of proposals for revision of the Patent Law, was presented to a committee of the Patent, Trademark and Copyright Law Section of the American Bar Association that I chaired. Our committee concluded that the most significant problem with our patent system was the failure of the Patent Office to have before it all of the pertinent prior art at the time of examining patent applications. We further concluded that no patent examination system, no matter how elaborate, would be able to find all of the prior art for all of the applications filed during the examination stage. This is because all of the technical publications in the world (and there are literally millions of them) constitute prior art, and there are hundreds of thousands of documents being added to this library every year. The problem cannot be overcome by the Patent Office alone, even with the advances in technology such as computerized searching. We then concluded that some form of assistance from the public was needed to assist the Patent and Trademark Office to gain access to the pertinent

prior art so that they can do a better job of examining patents.

After a patent has issued, it may be investigated by a potential user or asserted against an infringer. When either of these events occurs, extensive searches are conducted worldwide by interested parties. If new prior art patents and publications are found during the search, they may be used as evidence against the patent in court. In such cases, the court is asked to act as a patent examiner and invalidate the patent without the benefit of an opinion of the Patent Office on the new prior art being assessed. One solution to this problem, we thought, was to adopt a procedure designed to assure that all prior art publications and patents relevant to commercially important patents are considered by the Patent Office before that patent is litigated. In developing such a solution we looked at what was being done in all of the other patent offices in the world and found that the only economically sound system to achieve our goal is to provide a means for the public to participate to some degree in the examination process. To avoid the pitfalls that have occurred in other patent examining systems that permit the public to participate, we carefully drafted protective provisions to assure that the procedures adopted would not allow harassment of inventors or escalate costs to the point where the independent inventors and small corporations would be driven away from use of the patent system.

Our specific proposal to solve this problem was to retain the present examination system but (a) permit anyone to request reexamination of a patent at any time while it is still enforceable, based on newly discovered publications and patents not

previously considered by the Patent Office and (b) prohibit the use of newly discovered patents or publications in court to invalidate a patent unless the newly discovered patent or publication has been considered because it would require a defendant to use the reexamination procedure for an initial appraisal of newly discovered prior art he plans to later assert in court to be more pertinent than the art previously considered by the Patent Office. This proposal would upgrade the Patent Office examination to the level where we would all like to see it; that is, the examiner would have the opportunity to evaluate all the pertinent prior art patents and publications.

As the Association has previously advised the Subcommittee, the American Bar Association adopted the substance of this proposal of the Section of Patent, Trademark and Copyright Law by action of its House of Delegates on February 5, 1980.

> BE IT RESOLVED, That the American Bar Association favors the enactment of identical bills S.1679 and H.R.5075 (96th Congress) or similar legislation; and
>
> BE IT FURTHER RESOLVED, That such legislation should provide reexamination by the U.S. Patent and Trademark Office of any U.S. patent at any time during its term on the basis of patents and printed publications which had not been previously considered by the U.S. Patent and Trademark Office when requested by any person. The procedure for such reexamination shall provide that the patentee has the opportunity to amend to limit the scope of any claim of the patent in order to distinguish from patents and printed publications considered during reexamination or to cancel any claim from the patent and also provide the opportunity ex parte to rebut any determination of unpatentability. Such procedure shall also provide that (1) any party other than the patentee who has initiated a reexamination proceeding shall have an opportunity to submit a single written response to statements filed by the patentee and (2) if the patent subject to reexamination is or becomes involved in litigation, the court before which the litigation is pending is given

> discretion as to whether such litigation shall be stayed to permit reexamination of the patent by the U.S. Patent and Trademark Office.

The essence of the proposed system is to enable anyone to cite new prior art patents and publications to the Patent Office that are pertinent to any patent at any time during the lifetime of the patent. The Patent Office may then order reexamination of the patent which could result in the revision of the claim to more accurately define the invention. It could also result in the cancellation of claims which were improperly issued in the first instance. The procedures used in reexamination will be almost identical to the procedures presently in effect in the Patent Office for the initial examination of patent applications. Therefore, very little substantive change in the patent law will be required to implement the proposed reexamination procedure.

In general, the party requesting the reexamination would have the burden of convincing the Commissioner of Patents that a new question of patentability has been raised by applying the newly found patents and publications to the claims of the patent he wants reexamined. The Commissioner will review the newly discovered patents and publications cited and the statements set forth by the party requesting reexamination, and must find that a "new question of patentability" has been created by the newly cited prior art before ordering a reexamination.

The reexamination, once ordered, will be conducted like an original examination in the Patent Office, and the patentee will be permitted to amend his patent by narrowing or canceling claims to avoid the newly cited prior art. If any claim of the patent is

finally rejected during reexamination, the patent owner can appeal, just as he could have appealed a final rejection when his application was originally examined. Upon completion of the proceeding, the patent will be confirmed or corrected in accordance with established Patent Office Rules. In effect, the proposed system utilizes existing procedures in the Patent Office for examining patent applications except that the party requesting reexamination has the right to submit written comments on the action of the examiner in applying the newly cited patents and publications to the patent claims.

To assure that a defendant would have ample opportunity to present newly discovered prior art to the Patent Office so it could be used later in the district court proceedings, H.R.5075 provides that the court shall issue a short stay of the proceedings to enable either party to request that the Patent Office initiate a reexamination proceeding. There is also an exception to the requirement that the prior art be initially considered by the Patent and Trademark Office where the court concludes that such initial consideration by the Patent and Trademark Office is unnecessary for its adjudication of the issue of validity or infringement. In addition, provisions are made for the use of newly discovered evidence which by due diligence could not have been considered and cited to by the Patent Office. These provisions have been provided to avoid inequity being imposed on either party to a patent dispute.

The reexamination procedure of H.R.5075 has many advantages:

1. Few patents, if any, will come to the courts for adjudication without a strong presumption of validity, and the claims in reexamined patents will more accurately reflect the protection to which the invention is truly entitled.

This will greatly improve the quality and the reliability of commercially important patents.

2. The patents which would not have been issued if the examiner had known of prior art found later will not require adjudication by the courts because the invalid claims will be canceled as a result of the reexamination.

3. In all patent cases the district court judges will have the benefit of having all prior art patents and publications reviewed by the technically trained Patent Office personnel before these patents and publications are asserted in court to invalidate the patent. This should help the judges make better decisions in patent litigation.

4. Litigation involving reexamined patents will be avoided in many instances, because the claims in important patents reexamined by the Patent Office will be canceled, confirmed, or amended to more accurately define the scope of protection to which the patent is entitled, thereby enabling issues to be resolved in many cases without need of litigation.

5. It is expected that reexamination will only be requested for commercially important patents. Hence, the reexamination procedure is inherently selective and will have a minimal financial and manpower impact on the Patent Office when compared to the additional, complex examining procedures called for in past patent reform bills.

We are aware that opposition and other third party proceedings in foreign countries are frequently used to harass patent owners and competitors. However, because of the following safeguards in the proposed reexamination procedure, it is unlikely that there will be any substantial amount of harassment.

1. Reexamination can only be requested on the basis of publications and patents not previously considered by the Patent Office.

2. The Commissioner must find that a "new question of patentability" has been created by the newly cited patents and publications before ordering a reexamination.

3. The party requesting the reexamination will be charged an appropriate fee which can be designed to recover all of the Patent Office expense and can be set high enough to deter frivolous requests for reexamination.

In summary, I believe that the proposed reexamination procedure will result in more accurately defining the legitimate scope of protection to which any potentially controversial patents are entitled, thereby increasing the credibility of the entire patent system. The reexamination procedure will eliminate the present practice of having district court judges function as patent examiners, and will return them to their traditional role of determining validity and infringement of patents after having the benefit of a skilled, independent, technical appraisal of the pertinency of all published prior art relative to the claimed invention by the Patent Office.

The opposition raised by some people relative to "the large number of invalid patents being issued" is blunted because everyone has an uncomplicated, inexpensive, easily accessible procedure to attempt to challenge the validity and scope of such patents at any time during the period that the patent is enforceable.

The patent reexamination proposal of H.R.5075 is a simple inexpensive procedure that could significantly improve the quality of commercially important patents. The procedure can be conducted expeditiously and funded entirely by the parties requesting such an examination. In addition, the implementation of this system could have a major impact in reducing and controlling the amount and cost of patent litigation and should provide a significant impetus for additional investment in industrial innovation in the United States.

Mr. Goldberg, Chairman of the Section of Patent, Trademark and Copyright Law, will now testify on the establishment of the Patent and Trademark Office as an independent agency.

II. ESTABLISHMENT OF THE PATENT AND TRADEMARK OFFICE AS AN INDEPENDENT AGENCY

Mr. Chairman, my name is Morton David Goldberg, and I am testifying on this issue on behalf of the Association at the request of the President, Leonard Janofsky.

There are over 9,000 patent and trademark attorneys in the United States. Over 5,000 of these are members of the American Bar Association Section of Patent, Trademark and Copyright Law. The American Bar Association has a total membership of over 250,000 attorneys.

Both the Section of Patent, Trademark and Copyright Law and the American Bar Association strongly support this legislation to make the Patent and Trademark Office a separate and independent agency. At its recent mid-winter meeting in Chicago, the American Bar Association House of Delegates passed the following resolution:

> RESOLVED, That the American Bar Association favors enactment of S.2079 (96th Congress) or similar legislation which would recognize that strong patent and trademark systems are vital to the economy of the United States and would favor removal of the United States Patent and Trademark Office from the Department of Commerce and would make it a separate and independent agency.

In the Legislative Reorganization Act of 1948 the House and Senate Standing Committees on Patents were abolished and

jurisdiction over patent legislation was given to the Judiciary Committees. This has resulted in the actions of the Commissioner of Patents and Trademarks, the Presidential appointee who heads the Patent and Trademark Office, being subject to review by the Judiciary Committees, while actions of the Commissioner's superiors in the Department of Commerce, to whom he must respond and with whose directives he must comply, are reviewed by totally different groups within Congress.

Those persons with the Department of Commerce through whom the Patent and Trademark Office presently must work, although clearly well intentioned, are not knowledgeable of patent and trademark matters. Nor do they have direct experience in the operation of the Patent and Trademark Office. Thus, they cannot fully appreciate the impact of their decisions affecting the Patent and Trademark Office. As a consequence, decisions by Congress pertaining to the Department of Commerce, but affecting the Patent and Trademark Office, are based upon information, frequently insufficient or erroneous, supplied by the Department of Commerce and not by those most knowledgeable of the patent and trademark systems.

This proposed legislation, inter alia, would permit the Commissioner of Patents and Trademarks to be heard directly in those quarters where legislative and budgetary questions affecting his ability to carry out his assigned responsibilities are debated and

decided. That is, the Commissioner would be heard directly rather than having Congress receive the information second-hand, third-hand, and even further removed from the source. In other words, Congress would not be subject to the distortion of hearsay, a problem which all recognize distorts communication to a significant degree.

The bill also calls for a fixed term for the Commissioner. This will provide greater stability in that position and will eliminate the problem of frequently occurring periods in which the United States is without a Commissioner of Patents and Trademarks.

The work of the Patent and Trademark Office affects the business community, the scientific community, the consuming public, and the economy of the United States as a whole. It plays a vital role in stimulating innovation in our country--innovation which is sorely needed at this critical time. In his October 31, 1979 statement to Congress on his Industrial Innovation Initiatives, President Carter acknowledged this saying:

> Industrial innovation -- the development and commercialization of new products and processes -- is an essential element of a strong and growing American economy. It helps ensure economic vitality, improved productivity, international competitiveness, job creation, and an improved quality of life for every American.

* * *

> Patents can provide for a vital incentive for innovation, but the patent process has become expensive, time-consuming, and unreliable. Each year, fewer patents are issued to Americans.

Thus, the need for an improved, effective and efficient patent system has been recognized in the highest quarters. In order to obtain such a patent system, it is imperative that there be an improved, effective and more efficient Patent and Trademark Office. Independence of the Patent and Trademark Office would promote such improved effectiveness and efficiency.

It is particularly telling that every living former Commissioner has strongly supported separation of the Patent and Trademark Office from the Department of Commerce, as is exemplified by their testimony before Congress. Each of these former Commissioners has considerable expertise and experience in patent and trademark matters and in the operation of the Patent and Trademark Office, as well as experience and familiarity with the needs of United States business and industry. They perhaps are the most qualified persons to comment upon the effect of our patent and trademark systems on the economy of the United States and the importance of making the Patent and Trademark Office independent.

It is also quite significant that the American Bar Association's Patent, Trademark and Copyright Law Section, which consists of over 5,000 attorneys from private practice, corporate practice and government, who deal regularly with the

Patent and Trademark Office and the patent and trademark system, overwhelmingly support separation of the Office from the Department of Commerce.

The work of the Patent and Trademark Office needs no supervision by the Department of Commerce. In examining and rendering decisions upon applications for patents and for registration of trademarks, the Patent and Trademark Office clearly performs a quasi-judicial function. It is a common characteristic of governmental agencies which perform largely quasi-judicial functions that they have the independent status which H.R. 6533 would grant to the Patent and Trademark Office. Those personnel of the United States Government performing quasi-judicial functions must be free to perform them without interference from any other governmental entity. Making the Patent and Trademark Office an independent agency would free it from such interference, would aid in improving the quality of issued patents, and would revitalize the procedures for clearing and registering trademarks, thus promoting fair and strong competition in the United States.

Present operation of the Patent and Trademark Office is hindered by numerous problems. Typical of these are:

* Numerous patent search files with large numbers of patents missing. As a consequence it is very difficult for investors to accurately

estimate the likelihood of obtaining patent protection on new innovations. Likewise, industry cannot determine adequately whether proposed new products infringe existing patents. Patent Examiners cannot thoroughly perform their important function of determining whether patents should be granted on applications, and so industry cannot rely adequately on the patents it does receive.

* Inability of businessmen to conduct meaningful trademark searches due to obsolete search systems. This leads to erroneous business decisions on the use of trademarks on new products from United States industry.

* Inadequate personnel are available to perform routine functions within a reasonable time. Consequently, the time required for examination and completion of work on applications for patents is unduly long.

* Delays in obtaining opinions from the Trademark Examiners on applications for registration of new trademarks. As a result American business delays commercialization of new products.

* Lack of authority for the Commissioner of Patents and Trademarks to reallocate budgeted funds to different missions when the necessity for such reallocation becomes known only long after budget forecasts have been submitted by the Office to the Department of Commerce. Therefore, as needs shift over the course of a year, the Patent and Trademark Office is unable to fully respond.

We believe these problems result from the present existence of numerous layers of bureaucratic review by people not particularly knowledgeable of the Patent and Trademark Office or the American patent and trademark system. A few specific examples should provide graphical and vivid illustrations.

On October 31, 1979, the President announced that legislation would be submitted to provide innovation initiatives and that this legislation would include a statement on patent policy. The Patent and Trademark Office promptly submitted its proposals to the Department of Commerce but it was not until approximately five months later that the Department of Commerce finally presented an Administration bill in an attempt to carry forth the President's statement.

In 1973, the Trademark Registration Treaty was negotiated. Proposed implementing legislation was prepared but never submitted to Congress. As a result of delays within the Department

of Commerce, seven years have elapsed and Congress still has not had an opportunity to consider the Treaty and the required legislative changes.

The marked drop in effectiveness of the Patent and Trademark Office in the past three years is a direct result of budget cuts and of the lack of understanding of the operation at the Patent and Trademark Office. It is not understood how the Commerce Department can contend that the Department oversight of the Patent and Trademark Office is for the benefit of the Patent and Trademark Office in view of the history of continued reduction of the budget requested by the Commissioner. While the information regarding handling of the budget is scant, it is of public record that in Fiscal Year 1979, the Patent and Trademark Office submitted a budget request in the amount of $96.9 million, whereas the budget submitted to Congress was only $94.7 million. Of much greater significance is the budget cut which occurred in Fiscal Year 1981. The Patent and Trademark Office submitted a budget request of over $124 million whereas the budget Commerce recommended to OMB was pared down to $112.6 million and the budget eventually submitted to Congress was only $113.2 million, a cut of approximately $11 million--and at a time when the work being demanded of the Patent and Trademark Office was increasing and the efficiency of operation and effectiveness of the services provided by the Patent and Trademark Office was

dropping drastically. These cuts were made without the Commissioner being able to communicate directly with OMB or Congress.

Not only was the budget cut, but the Patent and Trademark Office was specifically directed by the Department to reduce its staff in certain areas, such as the mailroom. As a result of these staff reductions, the delays in making available to the public information about pending trademark applications has become so intolerable as to reduce the significance of the Trademark Office Search Room records to minimal levels. This greatly affects the ability of American industry to promptly market its new products and to market those products with some degree of assurance that it is not violating the rights of others.

In Fiscal Year 1979, there was insufficient money to pay the Patent Examiners' salaries due to a budget error. The Department ignored the pleas of the Patent and Trademark Office for many months, resulting in the Patent and Trademark Office having to curtail printing of patents, to the detriment of the public and the patent owners, in order to pay the Examiners' salaries.

Procurement of badly needed equipment and services is delayed by virtue of the multilevel structure now involved and that delay results in greater costs and inefficiencies. For example, the Patent and Trademark Office had money allotted to it to obtain a data processing facility in order to help it keep

pace with increased demands. However, as a result of Department delays and complications, such facilities were not acquired, and are still being investigated with costs being inflated steeply.

The above represents a small sample of the disadvantages of having the Department oversee the Patent and Trademark Office. The continued actions of the Department reflect the Department's priorities, considering all of its many responsibilities, rather than the priorities of the Patent and Trademark Office. We believe that in view of the importance of the patent and trademark system to this nation, especially under current conditions where United States leadership in technology is being reduced and maybe lost in the 1980's, the patent policy and the priorities of expenditures ought to be decided by Congress, not the Department of Commerce. Congress ought to have direct access to spokesmen from the Patent and Trademark Office who can best answer the hard questions about the operation of the Office and the effectiveness of the patent and trademark system.

The Commissioner of Patents and Trademarks is required to support what the Department perceives as the Administration's programs, which often subjugates the needs of the Patent and Trademark Office to those of other entities within the Department. Thus, the spokesman for the Patent and Trademark Office is unable to freely communicate its needs to Congress.

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We believe that on matters as important as fostering invention, maintaining the nation's technological lead and improving the economy, it is up to Congress to decide priorities, not the Commerce Department. Under the present arrangement, Congress has no opportunity to obtain the Patent and Trademark Office position; Congress only hears the Commerce Department's view.

Any complaint about the Patent and Trademark Office's inability to get its house in order being layed at the steps of the Patent and Trademark Office is inappppropriate and misplaced. For example, the Patent and Trademark Office Advisory Committee, together with the Patent and Trademark Office, submitted plans for important organizational revisions to the Department, only to find that implementation of the suggested revisions still has not been acted upon. These plans were prepared by those intimately familiar with the operation of the Patent and Trademark Office upon the advice of an independent public advisory committee which could reap no personal gains from the suggested reorganization.

Furthermore, it is incomprehensible to blame the Office for not getting its house in order when it is the Department which specifically, and in detail, determines how the budgeted funds are to be spent. Discretion is not the pleasure of the Patent and Trademark Office.

The subtle indications that the Department of Commerce may now realize its previous errors should not delay or preclude passage of H.R. 6533. Ever since 1948, when the statutory powers of the Commissioner of Patents were transferred to the Secretary of Commerce, the effectiveness of the Patent and Trademark Office (then Patent Office) has been reduced due to the reduced attention focused on the Patent and Trademark Office by Congress and OMB because of the inability of the Patent and Trademark Office to communicate directly--indeed at all--with Congress and OMB. The multitude of problems which have been occurring have continuously caused the Patent and Trademark Office, industry and the patent and trademark bar to make its feelings known. However, experience has shown that the Department of Commerce was unresponsive despite these cries of concern. Indeed, it was not until the hearings on the Senate bill, S.2079, that the Department of Commerce showed any concern for the deplorable conditions at the Patent and Trademark Office.

It is our belief, as well as the belief of many others who have been involved in attempting to improve conditions at the Patent and Trademark Office, that the only reason the Department of Commerce has become somewhat responsive recently is because of the concern for the seriousness with which S.2079 and H.R. 6533 are being considered. It is feared that without the pressure of these hearings and the possibility that the Patent and

Trademark Office will be made an independent agency, the inattention suffered by the Patent and Trademark Office within the Department will continue because of the relatively low priority position which the Department of Commerce has placed the Office, as have been exemplified by its action, or lack of action, for the past several years.

More importantly, although the present administration may improve the situation which has existed at the Patent and Trademark Office, there can be no assurance under the present arrangement that a future administration will not revert to the previous deplorable situation. The only way to assure the Patent and Trademark Office the voice it needs in the management and budgeting of its own affairs and in the ability to communicate its needs directly to Congress and OMB, both now and in the future, is to make the Patent and Trademark Office an independent agency.

I would like to comment on a proposition urged by the Department of Commerce. It urges that it is necessary for the proper functioning of the Administration and the proper coordination of policy within the Executive Branch that the Patent and Trademark Office remain within the Department of Commerce so that its policies can be coordinated with the other entities within the Department and the other entities within the Administration. This, in substance, according to Commerce, would appear to be the logical approach.

I have several comments on that approach. One is something Oliver Wendell Holmes once said: "The life of the law has not been logic, it has been experience." Congress has had placed forcefully before it the long, painful experience of the Commissioners of Patents and Trademarks who tried to govern the Patent and Trademark Office within the constraints of the Department of Commerce.

In addition, the experts in the area of administrative law say to the contrary of the Department of Commerce. Professor Kenneth Culp Davis, the dean of the administrative specialty, says precisely to the contrary.1/ Indeed, I had occasion recently to come across a very interesting article, entitled "Regulation and the Political Process," at 84 Yale Law Journal 1395 (1975), which makes a comment which I think is most appropriate: "As a practical matter, the inside agencies are no more subject to Presidential directives on specific policy issues than the independent agencies." Id., at 1404, note 28. The senior author of this article is none other than Lloyd N. Cutler, Counsel to the President.

I submit that it has been recognized in the highest areas of the Administration that it is not necessary for the proper functioning of the Patent and Trademark Office that it remain

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1/ Davis, Administrative Law Treatise, § 2.9 (2d ed. 1978).

within the Department of Commerce. If one looks at the organization chart of the Commerce Department in the Government Manual, it is apparent that the Patent and Trademark Office comprises but the little toenail of the body politic of the Department of Commerce. In a nation such as ours this is a disgrace. If the Congress is to implement its power under the Constitution to promote the progress of science and the useful arts, the Patent and Trademark Office must be given its independence.

We recognize that in this time of extreme economic problems, an increase in bureaucracy, with its concomitant increase in cost, is undesirable. However, we are not advocating creating new bureaucracy, merely taking an existing office and making it independent from the Commerce Department with essentially its present structure. No additional personnel would be needed just because it is an independent agency. There may be a modest, short-term cost of establishing an independent agency, but such an agency would provide efficiencies and a stimulus to American industry which would far more than offset the start-up cost. The contribution an efficient Patent and Trademark Office would make to the gross national product, income tax revenues and other benefits which the government and society would receive can not be ignored.

Establishing the Patent and Trademark Office as a separate and independent agency would free the Patent and Trademark Office from the restraints imposed by its present low priority position within the Department of Commerce. On behalf of the American Bar Association and its Section of Patent, Trademark and Copyright Law, I strongly urge enactment of this legislation.

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III. COPYRIGHT PROTECTION FOR COMPUTER SOFTWARE

Mr. Chairman, this part of my testimony dealing with copyright protection for computer software is being presented only on behalf of the Section of Patent, Trademark and Copyright Law and does not necessarily represent a position of the American Bar Association itself, since our Section's views on this subject have not been submitted to--and therefore have been neither approved nor disapproved by--the House of Delegates or Board of Governors of the American Bar Association. This position taken by the Patent, Trademark and Copyright Law Section has also been endorsed by the American Bar Association, Section of Science and Technology.

The Section of Patent, Trademark and Copyright Law specifically endorses legislation which implements the recommendations of the National Commission on New Technological Uses of Copyrighted Work (CONTU) concerning computer uses of copyrighted works.

In 1966, even before the introduction in Congress of the first bill to create a study commission on computer uses of copyrighted material, the Patent, Trademark, and Copyright Law Section passed a resolution (1966 SP 66-R32), approving in principle the granting of copyright protection to programs for computers and

electronic information and data storage and retrieval systems. At the last meeting of the American Bar Association in Dallas in August, 1979, the Patent, Trademark and Copyright Law Section passed a series of resolutions specifically favoring the recommendations made by the National Commission on New Technological Uses of Copyrighted Works.

> The Section of Patent, Trademark and Copyright Law favors in principle the CONTU recommendation that the new copyright law should be amended to make it explicit that computer programs are a proper subject matter of copyright; and SPECIFICALLY, the Section of Patent, Trademark and Copyright Law favors in principle that Section 101 of the new Copyright Law be amended to add the following CONTU proposed definition: A "computer program" is a set of statements or instructions to be used directly or indirectly in a computer in order to bring about a certain result. 1979, SP - R410-3.
>
> The Section of Patent, Trademark and Copyright Law favors in principle the CONTU recommendations that Section 117 of the Copyright Act of 1976, Pub. L. No. 94-553, 90 STAT. 2541, freezing the law as of December 31, 1977, on the use of copyrighted works in conjunction with certain automatic systems, be repealed. 1979, SP - R410-1.
>
> The Section of Patent, Trademark and Copyright Law favors in principle the CONTU construction that the 1976 act as written makes it clear that the placement of any copyrighted work into a computer is a preparation of a copy and, therefore, a potential infringement of copyright. 1979, SP - R410-2.
>
> The Section of Patent, Trademark and Copyright Law favors in principle the CONTU recommendation for a new Section 117 in the Copyright Law providing that it is not an infringement for the rightful possessor or a copy of a computer program to make or authorize the making of an adaptation of that computer program provided that such adaptation is created as an essential step in the utilization of the computer program in conjunction with a machine, and that it is used in no other manner. 1979, SP - R410-4.
>
> The Section of Patent, Trademark and Copyright Law favors in principle the CONTU recommendation for a new section 117 in the Copyright Law providing that it is not an infringement for the rightful possessor of a copy of a computer program to make or authorize the making of another copy of the program, provided (1) that such a new copy is created as an essential step in the utilization of the

computer program in conjunction with a machine, that such new copy is for archival purposes only and that all archival copies are destroyed in the event that continued possession of the computer program should cease to be rightful or in the even that the possession of the new computer program shall itself cease. 1979, SP - R410-5.

The Section of Patent, Trademark and Copyright Law favors in principle the CONTU recommendation for a new Section 117 in the Copyright Law providing that any exact copies prepared in accordance with the provisions of a new Section 117 may be leased, sold, or otherwise transferred, either (1) along with the copy from which such copies were prepared, only as part of the lease, sale, or other transfer of all rights in the copy of the program, or (2) with the authorization of the copyright owner. 1979, SP - R410-6.

The Section of Patent, Trademark and Copyright Law favors in principle the CONTU recommendation for a new Section 117 providing that adaptations prepared in accordance with the provision of a new Section 117 may be leased, sold, or otherwise transferred only with the authorization of the copyright owner. SP - R410-7.

Prior to the creation of CONTU, in 1974, the Section passed a resolution (Resolution 87 - 1974 SP75) favoring legislation specifying that the exclusive rights of a copyright owner include:

a) in the case of a computer program, the right to transfer the program into, within, or from a computer, and to perform or execute the program.

b) In the case of a computerized data base, the right to transfer the data base into, within, or from a computer, and to perform a search of or manipulate the data base.

CONTU did not specifically provide for a "search" right in its recommendation and to that extent, the 1974 resolution goes further than the CONTU recommendations. We urge that such a search right be included in this legislation.

The National Commission on New Technological Uses of Copyrighted Works held over 40 days of hearings at which it heard testimony from more than 100 witnesses. The Commission members were selected from the public in general and from representatives of copyright owners and authors and copyright users. Its recommendations were

made after months of careful deliberations and those recommendations have met with wide approval. While some of the CONTU recommendations deal with copyright questions associated with photocopying, our Section has taken no position specifically dealing with the CONTU photocopying recommendations.

We do urge this Congress to implement through legislation those recommendations of CONTU dealing with computer uses of copyrighted material.

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Date and Place of Birth
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College
Purdue University - Received B.S. in Engineering Law in 1954

Law School
Indiana University - Received Doctor of Jurisprudence in 1954

Military Service
U.S. Navy (two years)

Work Experience
Allis-Chalmers Patent Law Department (since 1954)
Director, Patent Law Department (since 1965)

Professional Association Memberships
American Bar Association (Chairman of the Patent Trademark and Copyright Section of the American Bar, 1978 1979)

Wisconsin Bar Association (served as Chairman of the Patent Trademark and Copyright Section of the Wisconsin Bar, 1969-1970)

Milwaukee Patent Law Association (President, 1975-1976)

United States Trademark Association (Board of Directors and Vice President, 1970-1973; Board of Directors, 1975-1977)

American Group of AIPPI (International Patent and Trademark Association) Elected Secretary, 1975; Elected Vice President, 1978

American Patent Law Association (Board of Managers, 1970-1973)

Association of Corporate Patent Counsel (President, 1969-1970)

Service on Governmental or Other Commissions or Study Groups Relating to Patents, Trademarks or Copyrights
Chairman of the Patent Policy of the Advisory Committee established as part of President Carter's Domestic Policy Review of Industrial Innovation; Member of the Patent System Advisory Panel of the Chamber of Commerce of the U.S.; Adviser on U.S. Delegation to the Washington Diplomatic Conference on the Patent Cooperation Treaty; Member of the National Council of Patent Law Associations Coordinating Committee to Study Fraud on the Patent Office

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Partner, Schwab Goldberg Price & Dannay and predecessor firms since 1962

Bar Memberships
Member, bars of New York and federal courts (including U.S. Supreme Court, Court of Claims Court of Customs and Patent Appeals, Court of Appeals for the Second Circuit)

Professional Memberships
American Bar Association (Chairman, Section of Patent, Trademark & Copyright Law 1979-80)
The Copyright Society of the U.S.A. (Honorary Trustee 1974-; President 1972-1974)
American Patent Law Association (Board of Managers 1972-1975)
New York Patent Law Association (Board of Governors 1972-1975)
Assn. of the Bar of the City of New York (Chairman, Committee on Copyright and Literary Property 1966-1969)
U.S. Trademark Assn. (Chairman, Lawyers Advisory Committee 1972-1974)
Computer Law Association
American Group of AIPPI (International Patent and Trademark Association)

Other Professional Activities
American Society for Information Science; Association for Computing Machinery; Bureau of National Affairs, Patent, Trademark & Copyright Journal (Member, Editorial Advisory Board 1971-); Information Industry Association; National Micrographics Association

Government Consulting Activity
Panel on Legal Aspects of Information Systems, Committee on Scientific and Technical Information (COSATI), Federal Council of Science and Technology; Copyright Advisory Committee of Office of Education; Special Copyright Consultant to the Secretary of Health, Education and Welfare; Panel of Consultants to the Register of Copyrights on the General Revision of the U.S. Copyright Law

Writing and Lecturing
Author or co-author of numerous articles; lecturer at seminars and symposia on intellectual property

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RECEIVED
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HOUSE COMMITTEE ON
GOVERNMENT OPERATIONS

September 19, 1980

The Honorable Jack Brooks
2449 Rayburn House Office Building
Washington, D.C. 20515

Subject: Independent Patent and Trademark Office (H.R. 6933)

Dear Mr. Brooks:

I understand that on Tuesday, September 23, your Committee on Government Operations will consider H.R. 6933. Included therein as reported by the Committee on the Judiciary was a provision that would establish the Patent and Trademark Office (PTO) as an independent agency, with a 6-year term for the Commissioner.

I write to let you know that users of the PTO are almost unanimous in support of this very important step, and to urge you to restore it to the bill as reported by the Legislation and National Security Subcommittee of the Committee on Governmment Operations. I write not only as Chairman of Monsanto Company, an industrial organization highly dependent on invention and innovation, but also as an active participant in the President's Domestic Policy Review on Industrial Innovation in which I was Chairman of the Advisory Subcommittee on Regulation of Industry Structure and Competition.

The proposition that the Patent and Trademark Office should be an independent agency is based on both facts and theory. The facts are that as a small part of the Department of Commerce the PTO has been the victim of neglect for years. All eight living ex-Commissioners have testified to this in detail. It is underfunded and its backlogs are now intolerable and increasing at an alarming rate. Because of unreliable records of earlier patents and trademarks, businessmen cannot rely on the patents anad trademark registrations now being granted by the PTO. In the processes of budgeting and policy setting, the PTO has not been allowed to talk to either the Office of Management and Budget or the Congress, so that Commerce acts as a screen to let through only the information it feels is pertinent and consonant with its overall goals. This is a structural problem that cannot be corrected by leaving the PTO within the Department of Commerce.

Based on theory, the Patent and Trademark Office should be an independent agency because its functions are quasi-judicial. The professional Examiners apply the statutes and case law to applications for patents and for trademark registrations. The case law is that established by the courts including the Supreme Court. An applicant dissatisfied with an Examiner's decision appeals to the Board of Appeals or the Trademark Trial and Appeals Board. Both are within the PTO and the members are rquired to be lawyers. Appeals from the PTO are to the U.S. Court of Customs and Patent Appeals or the U.S. District Court. The new U.S. Court of Appeals for the Federal Circuit, which is provided for in almost identical bills passed by both the House and Senate, will take all appeals from the PTO and all U.S. District Courts. This further emphasizes the day-to-day supervision by the Federal court system of the legal issues which are the substance of the PTO's work. No similar situation exists in any other part of the Department of Commerce.

From my perspective, neither Monsanto nor the United States can afford the present situation because of the key role that the patent and trademark system plays in the innovation process. The efficient operation of the Patent and trademark Office has a pronounced effect on the incentives to conduct research, to develop new inventions, to invest in production facilities, and to make available new products and technology which the patent system affords. Certainly in the case of Monsanto, the research activities which supported our past growth and upon which our future success will depend cannot be fully justified without a strong patent system to protect our high investment in research. Trademarks are important to us since they permit the selection of our products by purchasers who recognize the quality we put into them.

Furthermore, it is my understanding that merely making the Patent and Trademark Office an independent agency will not involve any significant increased costs (although I am convinced that the Office requires additional funding for its operation regardless of where it is positioned in the Federal structure). The functions of the PTO are of a limited nature mandated by statutes which contain no general language that would leave room for expansion of activities. I also note that for the first 150 years of its life, the Patent and Trademark Office operated as an independent agency although it was under the administration of various Departments, including State and Interior. However, as a result of a recommendation contained in the Hoover Commission Report of 1950, the Patent and Trademark Office became an integral part of the Department of Commerce and had its independence sharply curtailed. Therefore, while the Patent and

Trademark Office has not been independent in recent times, it seems to me quite clear that the establishment of the Office as an independent agency is not precedent setting and does not involve the creation of a brand new Federal agency but merely a realignment of existing functions.

I trust the foregoing will be of value to you in considering this important matter. With several other significant improvements in the patent and trademark system likely to be enacted in this Congress, it would be unfortunate for their expected benefits to be undercut by failing to take the fundamental step of making the Patent and Trademark Office independent. After all, it is the work product of the PTO, viz. patents and trademarks, which establishes the whole system of protection that is so important to innovation in this country.

Yours very truly,

John W. Hanley

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270 PARK AVENUE
NEW YORK 10017
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SEP 17 1980
HOUSE COMMITTEE ON
GOVERNMENT OPERATIONS

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SEP 19 1980
Legislation and National
Security Subcommittee

September 12, 1980

The Honorable Jack Brooks
Committee on the Judiciary
2137 Rayburn House Office Building
Washington, D.C. 20515

Re: H.R. 6933

Dear Mr. Brooks:

This is in further reference to our letters of April 29, 1980 and May 21, 1980 concerning H.R. 6933, a copy of each of which is enclosed herewith. The Committee on Patents of The Association of the Bar of the City of New York unanimously endorses in principle the concept of the Patent and Trademark Office as an independent agency. This concept is embodied in Congressman Railsback's amendment that was added to the bill before it was reported out from the House Judiciary Committee.

Very truly yours,

T. I. O'Brien

Thomas I. O'Brien
Chairman

Enclosures

cc: Members of Committee on Patents of
The Association of the Bar of the
City of New York

Janet E. Berry	Robert I. Pearlman
Steven J. Bosses	Joseph J. Previto
James H. Callahan	George W. Whitney
Kenneth A. Genoni	Lawrence G. Kastriner
Philip T. Shannon	John A. O'Brien
Stanley L. Amberg	William E. Pelton
Curtis W. Carlson	David W. Plant
	John C. Vassil

THE ASSOCIATION OF THE BAR
OF THE CITY OF NEW YORK
42 WEST 44TH STREET
NEW YORK 10036

COMMITTEE ON PATENTS

JOSEPH M. FITZPATRICK
CHAIRMAN
277 PARK AVENUE
NEW YORK 10017
758-2400

April 29, 1980

The Honorable Robert W. Kastenmeier
Chairman
Subcommittee on Courts and
Civil Liberties
2137 Rayburn House Office Building
Washington, D. C. 20515

ATTENTION: Bruce Lehman, Esq.
Chief Counsel

Re: H.R. 6933

Dear Mr. Kastenmeier:

The Committee on Patents of the Bar Association of the City of New York has unanimously endorsed Sections 301 through 307(a) of H.R. 6933, relating to reexamination. The Committee strongly endorses the fact that H.R. 6933 does not contain provisions corresponding to Sections 309 and 310 of S.2446, relating to Reliance on Art in the Courts and Stay of Court Proceedings to Permit Office Review.

The Committee's reasons for not endorsing Section 307(b), relating to intervening rights, are that a majority of the Committee believes that the question of such intervening rights should be left for development by judicial decision based on equitable considerations.

The Committee's only proviso to its endorsement of the reexamination provisions, Sections 301 through 307(a), is the sense of the Committee that the legislative history should include statements to explain that the reexamination procedure provides for very limited participation by third parties, hence

is not to be taken as res judicata as to them, and should also include a clear statement that it is intended merely to give the Patent and Trademark Office an opportunity to consider prior art which had been overlooked, and that the patent after reexamination is entitled to no greater presumption of validity than it would have been accorded had the new prior art been considered during the initial examination.

The Committee has not taken a position with respect to the remaining provisions of H.R. 6933, but is currently studying them and proposes to discuss them at its next meeting on May 20th and would like to state its position at that time. In the event that earlier action is necessary, it is requested that you advise me so that a statement of our position can be forwarded to you earlier.

Yours very sincerely,

Joseph M. Fitzpatrick
Chairman

JMF:pd

cc: Members of Committee on Patents
of The Association of the Bar
of the City of New York

Stanley L. Amberg, Esq.
Stevan J. Bosses, Esq.
E. Janet Berry, Esq.
James H. Callahan, Esq.
Curtis W. Carlson, Esq.
Kenneth A. Genoni, Esq.
Carroll G. Harper, Esq.
Thomas I. O'Brien, Esq.
Robert I. Pearlman, Esq.
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Philip T. Shannon, Esq.
Stephen R. Smith, Esq.
Joseph C. Sullivan, Esq.
George W. Whitney, Esq.
Eric C. Woglom, Esq.

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OF THE CITY OF NEW YORK
42 WEST 44TH STREET
NEW YORK 10036

COMMITTEE ON PATENTS

JOSEPH M. FITZPATRICK
CHAIRMAN
277 PARK AVENUE
NEW YORK 10017
758-2400

May 21, 1980

The Honorable Robert W. Kastenmeier
Chairman
Subcommittee on Courts and
Civil Liberties
2137 Rayburn House Office Building
Washington, D. C. 20515

ATTENTION: Bruce Lehman, Esq.
Chief Counsel

Re: H.R. 6933

Dear Mr. Kastenmeier:

This is in further reference to our letter of April 29, 1980 concerning H.R. 6933. The Committee on Patents of The Association of the Bar of the City of New York wishes to endorse in principle the concept of increased patent fees, provided such fees are credited to the account of the Patent and Trademark Office as set forth in § 42.

However, as regards the nature and amount of such fees, the Committee has not yet had sufficient opportunity to reach a position and reserves the right to comment at a later date.

Sincerely yours,

Joseph M. Fitzpatrick
Chairman

JMF:ag

cc: Members of Committee on Patents
of The Association of the Bar
of the City of New York

Stanley L. Amberg, Esq.
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George W. Whitney, Esq.
Eric C. Woglom, Esq.

"IF IT AIN'T BROKE, DON'T FIX IT.":

Some Reflections on the Copyright Office In the Library of Congress

BY

DAVID LADD

REGISTER OF COPYRIGHTS

ADDRESS DELIVERED TO THE ANNUAL MEETING

OF

THE SECTION OF PATENT, TRADEMARK AND COPYRIGHT LAW

AMERICAN BAR ASSOCIATION

Honolulu, Hawaii

August 4, 1980

As the inimitable Noel Coward has reminded us, mad dogs and Englishmen go out in the noonday sun. And among other human irrationalities, Washington junkies keep trying to come home again.

The return has puzzled some people. Since I arrived here in the land of the hula, I ran into Bill Schuyler, a good friend and counselor of many years, and he said to me:

> "When the President appointed you Commissioner of Patents, I didn't think he knew what he was doing. Now that you have come back as Register of Copyrights, I am not sure you know what you are doing."

I am not sure that the answer will satisfy Bill Schuyler, but I offer it to you for what it is worth: The post of Register of Copyrights has to be one of the most fascinating jobs in the world.

When the Search Committee to find a Register first approached me, I was surprised. When the appointment followed, I was astounded. And not only am I the first person yet to hold successively the jobs of Commissioner of Patents and Register of Copyrights, I am also probably the only person appointed to either position whose appointment was greeted in each case with the question: "David WHO?"

To assist those who have not yet answered that question, let me help by saying that I am not the David Ladd who is married to Cheryl Ladd.

Don't let me mislead you with flippancy: I am grateful for the trust. I hope to do the job well. I even hope that at the end even Bill Schuyler will conclude that I do know what I am doing.

You can believe that I have wondered somewhat about the warmness of welcome on my return to Washington when my swearing-in was almost immediately followed by the appearance of legislation in Congress looking to merge the Copyright Office with the Patent Office. That question, I want to discuss with you today.

The notion that the Copyright Office might be moved has arisen in legislation directed primarily to patent matters which is now before the House Judiciary Committee in the protean omnibus form of H.R. 6933.

That bill, however, also contains a provision that the Comptroller General submit to the Congress and the President by July 1, 1981 a report describing the functioning of the Patent and Trademark Office, the Copyright Office, and the Copyright Royalty Tribunal. It specifies that the report shall analyze the efficiency of each of these agencies and make recommendations for change "including recommendations on the desirability of merging the Copyright Office and the Royalty Tribunal with the Patent and Trademark Office." The possibility is thus raised whether the Copyright Office, an agency with 600 employees, part of the Library of Congress, with 5,400 employees, in the Legislative Branch, should be merged with the Patent and Trademark Office, an agency of 2,700 employees.

(By the way, since the Copyright Royalty Tribunal is not a part of my responsibility, my remarks here are not addressed to that agency but to the Copyright Office alone. And, out of a superabundance of caution, let me be explicit to say that I do not intend to comment here on the merits of the proposal to move the Patent and Trademark Office. That would be, I think you will agree, inappropriate for the head of a sister agency. But I did in January of this year express my views as a private citizen before Senator Bayh's Committee at a time when I had no expectation of returning to the Government; and those views are now part of the printed record.)

Any proposed merger of the Copyright Office and the Patent and Trademark Office has superficial appeal. It would bring together in one agency jurisdiction of virtually all Federal forms of intellectual property.

The combined numbers would give heft to the new agency and plausibly, one might conclude, economies of scale in management. After all, trademarks are a different species of property from patent in the Patent and Trademark Office; the three forms of property are administered together in some foreign countries, such as the United Kingdom; and the World Intellectual Property Organization in Geneva administers treaties relating to all three forms.

So that you will not suffer from suspense, let me tell you at the outset that I think the idea of removing the Copyright Office from the Library of Congress is bad. The principal argument against it, I believe, is summed up in a saying I heard as a boy in rural southern Ohio: "If it ain't broke, don't fix it."

The Copyright Office "ain't broke." It isn't even bent. It thrives in the embrace of the Library of Congress, which respects it, nurtures it, and provides the ideal environment for it. The relationship of the Library of Congress and the Copyright Office has not been characterized by the strain between the Patent and Trademark Office and Commerce to which the present legislative record on H.R. 6933 attests.

The differences between patents and copyrights are as significant as the similarities. The two systems are premised on fundamentally different concepts -- originality and novelty, with concomitant differences in examination; the training and expertise are different -- the arts and technology; the clienteles are different -- technologically oriented companies represented by lawyers can be compared to the communications and artistic industries represented by lawyers, but a large fraction of the copyright community we deal with is comprised of the lay public, who act pro se and need affirmative help.

Economies of scale and coordination sound good but, upon scrutiny in this case, don't look so appealing; and the relationship between the Patent Office and the Department of Commerce, and that between the Copyright Office and the Library of Congress are functionally different. I ought to know. And vive la difference. Claims to economies of scale -- or policy coordination or elimination of duplication -- by merger into monolithic superagencies should always be examined suspiciously. Quite often such mergers result in nothing of the kind. An example was the experience when the position of Assistant Secretary for Science and Technology was created within the Department of Commerce to "coordinate" the Patent Office, the Weather Bureau, the National Bureau of Standards, and the Office of Technical Services. The results are the subject of the legislative record on H.R. 6933.

The relationship between the Copyright Office and the Library of Congress could hardly be better, yet it steadily grows more fruitful. The Copyright Office participates in the top management councils of the Library; the Register of Copyrights is also the Assistant Librarian of Congress for Copyright Services and reports to the Librarian of Congress rather than to any intermediate level of management; and the Library, drawing upon the sophisticated and concerned support of the scholarly and library community, as well as the legal community, backs the Copyright Office splendidly.

Ask yourself: Have you ever heard complaints or rumors of dissatisfaction because of the treatment of the Copyright Office by the Library? Can you imagine a more orderly, scholarly, and enlightened process than that by which vast resources of the libraries, the universities, the bar, and the Government were marshalled in enacting the General Revision? Clearly, the Library is best equipped to house and help the Copyright Office,

led as it is by a Librarian of Congress who is a world-famous scholar, author, lawyer, and winner of the Pulitzer prize for history, Dr. Daniel Boorstin, and supported by a staff of scholars in command of 95 of the world's languages and with a deep concern for the arts and letters. The Copyright Office is exactly where it ought to be. Little wonder that there has been no previous proposal by Congress to combine it with any other agency. It ain't broke, and there's no need to fix it.

In a moment, I want to explain to you what I believe is the most compelling reason for leaving the Copyright Office where it is: the growing interdependence of the Library of Congress and the Copyright Office in their basic operations.

Before that, however, let me comment on the mistaken notion that the larger the size of a combined agency, the more manageable it is. The Patent and Trademark Office presently has some 2,700 employees. Of the more than 90 independent agencies of the Federal Government, more than 70 (that is, more than 80 percent) have fewer than 2,700 employees. The Federal Communications Commission has 2,228 employees; the Interstate Commerce Commission 2,070; and the National Labor Relations Board 2,976. Yet these agencies, with these numbers, have survived quite durably in the galaxy of independent agencies.

A word about the legal position. The law provides that the Librarian is appointed by the President with the advice and consent of the Senate; that the Register is appointed by the Librarian; and that the Copyright Office Regulations must be approved by the Librarian. In a 1978 case, Eltra Corporation v. Ringer (579 F.2d. 294), the Fourth Circuit Court of Appeals held that the activities of the Register, under this arrangement, are not in violation of the principle of separation of powers or the appointments clause of the Constitution.

We come now to what I consider to be the crucial argument. Let me say that crucial as it is, the interdependence of the cataloging of the Library of Congress and the Copyright Office is difficult to explain and hardly exciting stuff. Crucially important, but not exciting.

If the Patent and Trademark Office were severed and spun off tomorrow from the Department of Commerce, it would not alter the line function of the Department or any of its other component agencies. To be sure, the Personnel Office, the Budget Office, and the other staff offices would have reduced activity, but the line functions would be changed hardly at all. Not so for the Copyright Office.

Just as the mission of the Copyright Office is compatible -- complementary — with that of the Library, the degree to which the record-keeping function of the Copyright Office is integrated with the national bibliographic role of the Library of Congress is even more extensive. The records systems of the Patent and Trademark Office are unique within the Department of Commerce; the indexing and record-preparation activities of the Copyright Office are a subset of what the Library of Congress does every day: cataloging. And, if you find "cataloging" a dull subject, I commend to you the views of Barbara Tuchman, the Pulitzer Prize-winning author of the Guns of August, who said:

> "The card catalogue to my mind is the supreme advantage of being an American; if there are others they are secondary."

Few people, I believe, are aware of the relationship between the way in which the Library of Congress prepares its massive national bibliography and the way in which the Copyright Office prepares its public record.

Copyright cataloging, done in the Copyright Office, serves the bar and copyright industries. It also provides basic cataloging for many of the Library's special collections. The results of this relationship are important: duplication of effort and expense are avoided; library cataloging is expedited; the special needs of particular collections are met with a minimum of expense.

This interaction grows stronger. The Office's cataloging will soon be in accordance with new cataloging rules, which the Library has adopted. The benefits of copyright cataloging will, in the near future, be available to all the Library. This will move us closer to the creation of a comprehensive national bibliography -- long a goal of the American library, educational, and even our proprietary communities. The advances in technology which have benefited the Library are fully and freely shared with the Copyright Office. Anyone who has visited the Copyright Office knows of our card catalog. It is the largest card catalog of any kind in the world. It is also cumbersome, sometimes awkward to use, and these difficulties increase the expense of copyright searches.

The Copyright Office is concerned about this. So is the Library. With the support of the Library, the Copyright Office is planning to cease adding new cards to this massive file. Instead, access to copyright records will be through the Library of Congress computerized, on-line retrieval system. In turn, this will permit widespread access through local and remote video terminals, by scholars, copyright owners and users.

In several subtle ways, the new copyright statute makes copyright interests -- whether users or owners -- more dependent upon the deep

resources of the Library of Congress. The personal facts of authorship are now, under the new copyright law, as important as the date of publication was under the old copyright law. Section 302 of the new copyright law provides, in the case of certain works, for a term of protection consisting of the life of the author plus 50 years after the author's death. The law also provides that, after a period of 75 years from the year of first publication of the work or 100 years from its creation (whichever is shorter), anyone who obtains from the Copyright Office a search report that nothing in the records of the Office, or in any other reference sources which the Register considers practicable to consult, indicates that the author is living or died less than 50 years before, is entitled to the benefit of a presumption that the author has been dead for at least 50 years. There is no more practicable or better reference source concerning authors than the Library of Congress with its enormous collections and bibliographic resources. What more natural arrangement could there be for the implementation of this important provision than one where this kind of information, which will be very much in demand in the years to come, is so closely and readily at hand?

The list could go on, but I should not. Explaining how closely the Library of Congress and the Copyright Office support and sustain one another is as hard as explaining the success of a 25-year marriage in an age of divorce. Our marriage has lasted 110 years and in that time, we have helped each other grow, solved each other's problems and shared the task of charting our futures.

In 1870, Ainsworth Rand Spofford, the Librarian of Congress, got the deposit and registration function into the Library of Congress, with the support of the then-Commissioner of Patents. Spofford saw relationships

which no one else saw; he fought hard to see the Copyright Office in the Library of Congress and he won the struggle to get it. His vision has become our benefit. He was not concerned with empire building, but with building the nation's library, now the greatest library in the world. From that time until now, every Register of Copyrights has been deeply conscious of the role of libraries, of the national library, in the shaping of our culture and its preservation. In turn, every Librarian has seen copyright as more than a commercial practice of publishers. They have perceived copyright's relation to the vitality of our society and, more, have acted upon that perception.

Dr. Boorstin's concept of the Library as a multimedia encyclopedia is well known. Eventually that collection may be accessible and browsable throughout the world by virtue of rapidly advancing technology and collaboration between the Library and the Copyright Office. That prospect and that happy labor should not be destroyed nor detained by ill-advised separation.

Copyright has resided in the Library for more than 100 years. Justice Holmes said, "The life of the law has not been logic; it has been experience." So, too, with Government and institutions. Experience tells us that the Copyright Office should remain in the Library. Actually, so does logic.

The Copyright Office ain't broke; don't fix it. Rather, celebrate its success in its wonted place. And expect new achievements.

CLEMENT J. ZABLOCKI, WIS., CHAIRMAN

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CHIEF OF STAFF

Congress of the United States
Committee on Foreign Affairs
House of Representatives
Washington, D.C. 20515

RECEIVED
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Legislation and National Security Subcommittee

September 16, 1980

RECEIVED
SEP 18 1980
HOUSE COMMITTEE ON
GOVERNMENT OPERATIONS

The Honorable Jack Brooks
Chairman
Committee on Government Operations
Washington, D.C. 20515

Dear Mr. Chairman:

This is to acknowledge and thank you for your letter of September 11, requesting my comments on H.R. 6933, the Government Patent Policy Act of 1980.

H.R. 6933 impacts on the jurisdiction of the Committee on Foreign Affairs in only one modest way: through the conforming change to the Arms Control and Disarmament Act, which you cite in your letter. Information that I have received indicates some potential problems with a repeal of section 32 of that Act. From what I have been told, the present Arms Control and Disarmament Agency (ACDA) regulations regarding patents arising out of ACDA-funded research have worked smoothly. Furthermore, wide dissemination of promising arms control ideas and approaches, with certain exceptions, remains a fundamental objective of the Arms Control and Disarmament Act.

Nonetheless, the principal issue of H.R. 6933 is effective patent policy. This is not a foreign affairs issue. As such, I would defer to the recognized expertise of the Committees on Government Operations and on the Judiciary for its appropriate resolution. Additionally, the issues involved and the bill itself are something on which the full House of Representatives should ultimately work its will. If in the course of the Committee's consideration of H.R. 6933, comprehensive changes are adopted, I would request that the necessary conforming changes to section 32 of the Arms Control and Disarmament Act be made.

With best wishes, I am

Sincerely yours,

Chairman

CJZ:rhg

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